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Title: Amending and Restating the Agreement between the Washington Metropolitan Area Transit Authority and the City of Alexandria to Provide Increased Funding for the Potomac Yard Metrorail Station Project, Consideration of the Repeal of the Tier II Special Tax District, and Revision of the Developer Contributions Agreement with the Owner of North Potomac Yard.

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Date	Ver.	Action By	Action	Result
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City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 4, 2018
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:
 Amending and Restating the Agreement between the Washington Metropolitan Area Transit Authority and the City of Alexandria to Provide Increased Funding for the Potomac Yard Metrorail Station Project, Consideration of the Repeal of the Tier II Special Tax District, and Revision of the Developer Contributions Agreement with the Owner of North Potomac Yard.

ISSUE: (a) City Council authorization of an increase in the Potomac Yard Metrorail Station project budget to \$320 million. (b) Consideration of the repeal of Tier II Special Tax District and (c) Revised Developer Contributions agreement with the owner of North Potomac Yard.

RECOMMENDATION: That City Council:

- (1) Adopt a revised project budget for the Potomac Yard Metrorail Station of \$320 million;

- (2) Authorize the City Manager to sign the Amended and Restated Agreement Between the Washington Metropolitan Area Transit Authority (WMATA) and the City for the Funding of the Potomac Yard Station Project. (The Funding Agreement amount is \$290 million which represents the WMATA portion of the revised estimated project budget of \$320 million);
- (3) Direct the City Manager to bring an ordinance forward in May, to be considered if the City Council endorses Dominion Energy's alignment of the 230kV line on that same docket, to add a provision to the Tier II Potomac Yard Metrorail Station Special Services District that would sunset the Special Tax District when the Potomac Avenue alignment of the 230kV line is approved;
- (4) Direct the City Manager to negotiate, consistent with the terms described herein, an amended Memorandum of Understanding related to developer contributions with the owner of the North Potomac Yard property, subject to future City Council approval.

MEMORANDUM SUMMARY: A new Potomac Yard Metrorail Station is central to the vision for the redevelopment of Alexandria and Potomac Yard. WMATA and the City have been participating in WMATA's confidential procurement best value process for the last 12 months. As this is a WMATA Metrorail Station constructed on an active WMATA rail line, the contract will be issued and overseen by WMATA. The project is now approaching a major milestone with the Design Build contract award by WMATA on the immediate horizon. The construction costs for the project are now higher than previously budgeted, and there remain to-be-determined design modifications necessary to bring the project to within the revised budget.

This docket memo is a comprehensive compilation of various project elements including detailed sections on the project background; station value and benefits; project status (schedule and budget); details on the Amended and Restated Funding Agreement, funding structure (including proposed repeal of the Tier II Special Tax District and revising the 2010 developer contribution agreement); federal stakeholder updates, and fiscal impact. The memo details the City Council actions and staff recommendations, and discusses the next steps in the project schedule.

PROJECT BACKGROUND: Consideration of a Metrorail station in Potomac Yard has a long history. The potential for a Metrorail station at Potomac Yard was initially considered during the original planning of the Metrorail Regional System in the 1960s and 1970s. But with an active railyard, a Potomac Yard Metrorail Station never came to fruition. While a Metrorail station was not required, or a funding plan endorsed as part of the 1999 City approval for South Potomac Yard, a reservation site for a future Metrorail station was approved to not preclude a future Metrorail station. Major milestones in the history of planning for the Potomac Yard Metrorail Station include:

- **1968 and 1975:** Metrorail system plans identified Potomac Yard (which was still an active railroad switch yard) as a possible site for a future Metrorail station that could benefit new development.
- **1992/1999:** The City of Alexandria's Potomac Yard/ Potomac Greens Small Area Plan identified the potential for a Metrorail station.
- **2008:** City adopted the Transportation Master Plan which recommended any increase in density beyond what was currently approved in the Potomac Yard/Potomac Greens Small Area Plan should include reasonable provisions to address the development and funding of an additional Metrorail station.
- **2010:** The Potomac Yard Concept Development Study, conducted by the City of Alexandria and the Washington Metropolitan Area Transit Authority (WMATA), analyzed eight potential Metrorail station

locations, recommending further examination of three locations.

- **2010:** The North Potomac Yard Small Area Plan was adopted, envisioning replacement of the existing temporary shopping center with an urban transit-oriented mixed-use neighborhood based on the provision of a Metrorail station.
- **2011:** Federally required Environmental Impact Statement (EIS) process guided by the National Environmental Policy Act (NEPA) process initiated.
- **2015:** City Council selected Alternative B as the preferred alternative as part of the Environmental Impact Statement (EIS) process.
- **2016:** City Council approved the Master Plan Amendment, Map Amendment (rezoning), and Development Special Use Permit (DSUP) with site plan and associated Special Use Permits to construct a Metrorail station and associated facilities in Potomac Yard;
- **2016:** The Federal Transit Administration (FTA) and the National Park Service (NPS) each issued their Record of Decision (ROD) for the project; WMATA issued its Solicitation Notice and Request for Proposal (RFP) for the design-build contract for the Potomac Yard Metrorail Station.
- **2017/2018:** Design Build Technical and Price Proposals submissions from multiple entities received by WMATA and currently under final review and evaluation.

Potomac Yard Metrorail Station Value and Benefit to the City

Building a new Metrorail station is central to the vision for the redevelopment of Potomac Yard as a smart-growth, walkable mixed-use community, with access to high-quality retail, entertainment, and parks. A new Metrorail station will help to accommodate the growing transportation demand in the Route 1 corridor. A Metrorail station in Potomac Yard will provide benefits to the community and region by:

- Maximizing the number of people taking transit to and from the Potomac Yard area by providing direct access to Metrorail;
- Removing thousands of cars from the Route 1 corridor each day;
- Enabling a mix of uses in an environment where people can walk or bike to destinations in Potomac Yard for their daily needs;
- Providing a vibrant destination for all Alexandrians with a mix of uses, including shopping, restaurants, other amenities, and public spaces; and
- Strengthening and diversifying the tax base to improve the long-term economic stability of the City by generating net revenue to the City for its General Fund general purpose uses of \$1.9 billion by 2056 when the last of the bonds issued for this project have been repaid.

As WMATA and the City have worked through the best value procurement process, reviewing and evaluating cost savings opportunities, the station design has evolved while the core objectives and values of the station have been maintained. Those objectives and values being:

- Continued support of future mixed-use development.
- Access from both the east and west of the CSX rail corridor to ensure the station and its elements will make the transit experience pleasant and efficient.
- Retaining the intent of the approved design by ensuring the (1) station design and materials will be high quality, enduring, cohesive, responsive to stakeholder requirements, and reflect the function of the station and (2) the materials are planned to be consistent with the approved design and appropriate to the use and scale of the station.
- Being sensitive to the visual impacts as observed from the George Washington Memorial Parkway

(GWMP). The station and infrastructure will be designed to minimize visual impacts, and enhance its immediate environment of wetland, woodland, and open space. The station facilities design will make use of materials and strategies that are environmentally sensitive.

PROJECT STATUS:

WMATA Confidential RFP Procurement:

WMATA and the City have been working through the WMATA best value procurement process. This procurement process is confidential and WMATA's non-disclosure requirements do not allow City staff involved to disclose any information pertaining to the budget or design details. This confidential nature during competitive procurement and contracting is standard operating procedure in most governmental contracting processes.

In response to the November 2016 WMATA issued RFP, proposals were received in March 2017. The price proposals received exceeded the project budget. WMATA and the City reviewed the proposals and collaborated to develop an array of possible cost changes in project scope to be incorporated into a revised RFP. WMATA and the City then worked with the Design Build vendors through a WMATA managed confidential best value procurement process, under which the vendors were instructed to incorporate the scope reductions, and also requested to propose additional alternative technical concepts to further reduce Project costs. WMATA received revised proposals in February 2018. The revised proposals are currently being reviewed by WMATA and the City, but bids, though lower than the March 2017 initial proposals, are still higher than the initial project budget.

Project Schedule:

A community meeting was held on April 4, 2018 to provide an update to project stakeholders on the progress. Upcoming anticipated project schedule milestones include:

- April 12, 2018: WMATA Board Committee Meeting
- April 26, 2018: WMATA Board Meeting
- Late April 2018: City & WMATA Execute Amended & Restated Funding Agreement
- Mid 2018: Contractor Notice to Proceed Issued
- Mid 2018 to Late 2018: PYMIG and Public Outreach for DSUP Amendment
- December 2018: DSUP Major Amendment considered by City Council
- Late 2018: Begin Early Release Construction Activities (Site Access, Field Trailers, Initial Clearing, Geotechnical Work)
- Late 2021 / Early 2022: Final Station Completion & Revenue Service Open

Following contract award in April/May 2018, the selected design-build contractor will initiate the processing of a major amendment to the previously City-approved DSUP. The major amendment process will include extensive public outreach and consideration of all feedback received during the outreach process. The major amendment to the approved DSUP will need to be approved by the Planning Commission and City Council. Changes to the design will also require approval by the Board of Architectural Review (BAR) and the National Park Service (NPS). The PYMIG, which will restart and continue to meet on a regular basis throughout the life of the project, will provide the forum for community and stakeholder input, feedback, and project updates as it did during the initial planning and design phases.

Project Budget:

The 2015 project budget was \$268 million, and the revised total project budget is currently estimated to be \$320 million. The \$11 million funded by the last amended agreement with WMATA has been spent down to pay for the pre-planning costs of the Project. This \$11 million is included in the estimated revised total project budget cost. The revised total project budget includes a WMATA project budget of \$290 million. The WMATA project budget includes the Design Build construction contract, WMATA project management, temporary property transactions to accommodate the construction (off-site parking, staging, laydown area and contingencies), costs associated with utility company coordination and utility relocation, and CSX coordination around the live and active rail corridor. The City costs are estimated at \$30 million and include City staff, consultants, and NPS mitigation costs. City staff and consultant costs are for the purpose of overseeing and facilitating project and construction management project elements (including field monitoring, observation, and inspection during construction; ensuring project adheres to all applicable City approvals and permits; specialty technical reviews; value engineering, constructability, and schedule reviews; change order vigilance and public outreach).

The project budget also includes \$30 million in contingencies. This contingency level is standard procedure for projects of this magnitude and complexity and includes allocation for change orders and unforeseen costs. This total project budget contingency is on reserve and not allocated to any specific area of the project.

Project Budget Cost Increase Factors:

The initial project budget was calculated in 2015 following federal Standard Cost Categories (SCC) procedures. The project costs were presented as a range from low (\$160 million) to high (\$315 million), and a representative value of 85 percent of the high end was used as the budget (\$268 million). The capital costs were escalated from 2015 dollars to 2020 dollars, assuming a 2.5 percent annual inflation rate. The amount of escalation was based on an implementation schedule that assumed an opening date for the Potomac Yard Metrorail Station in 2020. There are numerous factors as to why the project budget has increased which are detailed below:

General Price Escalation:

With the forecasted station opening now late 2021/early 2022, the effects of general construction cost escalation increased the project budget. Annual escalation of construction costs in this region range from 2.5 to 3.0 percent. With the station opening date being approximately 12 to 16 months later, and assuming a 2.5 percent annual inflation rate, this would equate to an increase of approximately \$7 million to the original project budget.

Labor and Material Costs:

Construction costs have increased dramatically in the Washington D.C. Metropolitan area over the course of the last several years. The main drivers behind the increases are attributed to material and labor costs. Engineering News Record (ENR) captured the “common labor” percentage increase in 2017 at 18.8 percent, the “construction costs” increase at 15.5 percent and the “material” increase 7.2 percent. The regional average annual increase is typically 3 to 4 percent, so this area saw an increase of 4 to 5 times the average for the labor and general construction costs, and almost twice the average for the material costs. The labor competition and increased labor prices led directly to a revision in the 2017 Davis Bacon prevailing wages. This change had a direct impact on the Potomac Yard Metrorail Station project budget as this Davis Bacon revision was addressed

in one of the WMATA RFP Amendments. Due to a general shrinking in the number of building contracting firms in this region, there is also a premium on “specialty subcontractors” in the Washington D.C. Metropolitan area. This had a direct impact on the Potomac Yard Metrorail Station project as the station has many elements which require specialty labor forces.

The Washington D.C. Metropolitan area is currently a very strong construction demand market with numerous ongoing major Design Build transportation projects. The area has seen a general trend of substantially increased construction costs due to the strong construction economy. Several of the Design Build transportation projects under construction in the area include:

- Purple Line LRT (\$5.6 billion, Maryland MTA)
- Adding a Lane to Eastbound I-66 Between the Dulles Connector Road and Fairfax Drive (\$85 million, VDOT)
- Interstate 395 Express Lanes Extension (\$500 million, VDOT)
- Transform I-66 Outside the Beltway (\$2.3 billion, VDOT)
- Silver Line Extension - Phase II (\$5.8 billion, MWAA)
- I-95 Express Lanes Fredericksburg Extension (\$450 million, VDOT)

From a national standpoint, there were also several Design Build projects with procurements on or around the same time as the Potomac Yard Metro RFP. These other projects included:

- Boston’s Green Line Extension (\$3 billion)
- Los Angeles (LAX) World Airport Terminal People Mover (\$336 million)
- Los Angeles (LAX) World Airport Tom Bradley International Terminal (TBIT) extension (\$1.6 billion)
- California Foothill Gold Line Construction Authority- Extension from the cities of Glendora to Montclair (\$1.5 billion)

All the factors identified in this section, the (1) increased trends of construction, labor, and material costs above the typical average, (2) concurrent active construction projects, and (3) projects being procured at the same time had direct financial impacts on the landscape for the bidding and pricing on the Potomac Yard Metrorail station project.

Contingency Risk Allocation:

From discussions with professionals in the Design Build construction area, it has been determined that the initial project budget did not carry enough contingency based on the complex site characteristics. As the WMATA and City team have worked with the contractors through the best value procurement process, there are several project elements which carry substantial risk which have been better identified. It is extremely challenging to put a price tag on these risk items. In addition, there has only been one infill station built in the entire WMATA system (NoMa), so experience building infill stations is sparse, representing a risk to the contractor. Additional items which introduce a high level of risk include, but are not limited to:

- Working in the proximity of the live track corridor (WMATA and CSX)
- Geotechnical conditions
- Contaminated soil issues
- Complex stakeholder coordination (WMATA/NPS/FTA/CSX)
- Limited site access, constrained project site

From discussions with Design Build professionals, on many Design Build projects with similar type risks, staff has learned that contractors are currently inserting a contingency of 2 to 3 times the typical amount. This is a result of a few factors. One factor is the Design Build contractor bears the majority, if not all the risk, for some of these items above. Also, since this region is such a strong construction market, the contractor can be selective on the projects they pursue and due to the nature of the financial trends, they can allocate more contingency on these risk items and remain very competitive in the market.

FUNDING AGREEMENT:

WMATA considers the Potomac Yard Metrorail Station project like others initiated by local governments to be a “*reimbursable project*”. When a locality requests an infrastructure project not within the established WMATA work program, then the WMATA Board of Directors will only agree to the project if WMATA will not incur any costs. The WMATA Board Resolution 99-63 (Attachment 1) describes WMATA’s reimbursable project policy. In order for the City to proceed with the construction of this Metro Station at this time, the City is required to agree to fund all costs associated with the project. The City has entered into funding agreements with WMATA since the inception of the project in order to fund all of the costs necessary for the project to proceed.

Original and Current Funding Agreements:

The original Funding Agreement between the City and WMATA was executed in September 2011. This original agreement allowed WMATA (and WMATA consultants) to conduct a station concept development, feasibility, and environmental study with a total task order cost of \$1.5 million. As work progressed there were three (3) amendments generated. The amendments increased the Funding Agreement task order budget from an initial amount of \$1.5 million to \$4.7 million (Amendment #1, July 9, 2012) to \$5.2 million (Amendment #2, June 25, 2015) and to \$11 million (Amendment #3, February 2, 2016). The Funding Agreement increases for Amendment #1 and Amendment #2 were due to additional scope for the EIS level of effort, as required by the FTA. The Amendment #3 scope increased the Funding Agreement value allowing for the completion of the EIS process and funding the development of all documentation and the completion of all tasks required to advance the project through the contract advertisement and the proposal evaluation process, including obtaining the City DSUP. The \$11 million funded by the last amended agreement has been spent down to pay for the pre-planning costs of the Project. These costs are included in the total revised budget estimate of \$320 million.

Amended and Restated Agreement:

This Amended and Restated Funding Agreement (Attachment 2) provides the funding to award the Design Build contract and carries the project through completion and authorizes the total WMATA project budget of \$290 million. As discussed herein, this represents the main part of the \$320 million total revised budget for this project.

Given that the project is now moving from planning and procurement into the Design Build phase, City staff worked closely with WMATA to update and enhance the current Agreement. The Agreement strives to ensure an efficient process to get the Project delivered on time and on budget through many terms including:

- **Project Budget, Scope and Schedule:** The Agreement includes the Project Scope, Project Budget and the Project Schedule. These main parameters of the project cannot be amended without agreement of the City.
- **Reporting Requirements:** The Agreement requires WMATA to provide the City with monthly budget

tracking showing the actual costs incurred compared to expected costs and budgeted costs, as well as documentation to justify the costs incurred. Additionally, the City will have access to all documentation the Design Build contractor provides to WMATA. This documentation will assist the City in tracking the project and ensuring compliance with the Project Budget.

- **Change Order Review:** The Agreement gives the City the ability to review and approve in writing all Change Orders submitted by the Design Build contractor which allows the City to be a part of the decision process as project changes come up.
- **Obligation to Comply with City Rules and Regulations for Development.** The City continues to have all regulatory authority it has now for construction projects within the City. This provides the City with a second level of oversight to ensure the project is built to the City's expectations.
- **Requirement for public outreach and community relations.** The Agreement obligates WMATA to prepare and implement a communication plan to make sure the community is informed about the progress of the project. The Agreement gives the City the right to review and approve the plan to ensure that it is consistent with the City's standards for civic engagement.
- **Integration into the process of the City's Project Manager.** The City's Project Manager will be integrated into the project team including having an office space at WMATA so that communication and access to the process is seamless. The Agreement specifically allows for the City's Project Manager on this project to be included in all project meetings with the Design Build contractor.
- **Establishment of a Senior Executive Board:** The Agreement includes the establishment of a Senior Executive Board made up of senior level members of both parties. The purpose of the board will be to oversee the implementation of this Agreement and the Project. This board will provide a direct line of communication between the organizations at the decision-making level.
- **Dispute Resolution:** The Agreement includes a thorough dispute resolution process so that if there are disagreements between the City and WMATA in the implementation of this Project, there can be a quick and efficient solution. The dispute resolution process starts with the project managers and identifies the next levels where these matters can be raised including the Senior Executive Board, each organization's Executives, and then ultimately mediation or litigation if the dispute cannot be resolved.

FUNDING STRUCTURE:

The table below provides a general breakdown of the total funding sources for the project. The total project costs are expected to equal \$320 million, including WMATA project costs of \$290 million and City managed costs of \$30 million. The funding sources include \$70 million from Northern Virginia Transportation Authority (NVRTA) that has already been awarded, and a \$50 million loan from the Virginia Transportation Infrastructure Bank (VTIB) that has also been secured. The remaining \$200 million is expected to be comprised of a combination of long term General Obligation (GO) bonds and a loan from the U.S. Department of Transportation (USDOT) Build America Bureau, formerly known as a Transportation Infrastructure Finance and Innovation Act "TIFIA" loan. Both the VTIB loan and the TIFIA loan will be structured to include about \$10 million in "capitalized interest." This means that the cost of interest in the early years of the loan are included in the amount that is borrowed. This enables the City to align the repayment more closely with the revenue growth associated with the Potomac Yard area. In the 2015 finance plan, the capitalized interest

projected was \$26 million.

<u>Sources of Funds</u>	<u>Millions</u>
NVTA Grant	\$ 70
VTIB Loan (2.2%)	50
TIFIA Loan (2.9%)	88
GO Bonds (4.5%)	83 ¹
Other Sources	<u>29</u>
Total Sources	\$320

A. NVTA Grants (\$70 million)

In FY 2016, the Potomac Yard Metrorail Station was selected as one of the regional projects eligible for NVTA 70% funding. The Northern Virginia region has a pool of funds generated by regional taxes that are required to be used for transportation projects. NVTA has already approved \$66 million of grant funding toward the project. This is in addition to \$3.5 million of earlier NVTA funding that the City received that has been assigned to this project making the total funds available \$70 million.

B. VTIB Loan (\$50 million)

In addition to the grant funding described above, in January 2015 this project was approved for a VTIB loan of \$50 million. With an interest rate of 2.2%, the ability to capitalize interest in the early years, and a very favorable repayment schedule, the VTIB loan will provide \$50 million toward the cost of the project with no loan repayment required until 2027. Revenue generated from the \$0.20 tax assessed on properties located in the Tier I Special Tax District have been pledged to repay the VTIB loan. As of Calendar Year 2018, Tax Tier I is generating approximately \$1.1 million annually and by 2027 should be generating \$3.4 million, and by 2032 \$4.9 million annually.

C. TIFIA LOAN (\$88 million to \$106 million)

In July 2016 the City submitted a Letter of Interest to the USDOT for a TIFIA loan. In Spring 2017, the City was notified that the application had been accepted and had progressed to the creditworthiness phase. Loan proceeds can be set at up to 33 percent of eligible project costs, and for planning and costing purposes the City has assumed at least \$88 million of funding through this program. Based on the new \$320 million project budget that TIFIA loan could potentially increase to \$106 million. The current interest rate for a TIFIA loan is 2.9% and repayment does not begin until 2022. In December 2015 when staff was considering the financial impact of pursuing a TIFIA loan in lieu of a portion of the GO bonds, the interest savings was estimated to be approximately \$2.4 million on each \$20 million of debt due to the favorable interest rate. If the City is successful in shifting \$88 million of GO debt to a TIFIA loan, debt service savings could be approximately \$10 million over the life of the loan. TIFIA loan repayment terms are more flexible than would be City issued GO bonds. Revenue generated from the appreciation in the Potomac Yard Special Services District will be used to repay the TIFIA loan. Staff is working to provide the information required to complete the TIFIA creditworthiness evaluation phase, and is optimistic that the TIFIA loan agreement could be in place by the end of 2018.

D. GO Bonds (\$83 million to \$65 million)

A portion of capital costs for the Potomac Yard Metrorail Station project is proposed to be funded with GO

bonds. Based on the current project costs and the secured or anticipated funding sources, it is anticipated that the City will need to borrow approximately \$83 million. With an assumed interest rate of 4.5% (higher than today's market) and an amortization schedule of 30 years, debt service payments of \$4.3 million begin in 2022 and reach a maximum of \$6.6 million in 2035. Up to one third of the total project cost could be eligible for TIFIA funding, potentially reducing GO debt by \$18 million and shifting that debt to the lower interest rate assumed for TIFIA debt. In 2010 when the first station plan was approved it was contemplated that up to 100% of the \$240 million estimated station cost would be funded by GO bonds. That percentage with the availability of NVTA, VTIB and TIFIA monies is now down to 26% and could drop as low as 20%.

E. Potomac Yard Fund Cash (\$25 million)

After the 2010 funding plan was approved, a Potomac Yard Fund was created to hold funds created by the establishment of the first (Tier I) Special Tax District starting in 2011, as well as real estate tax revenues generated by Potomac Yard real estate as it developed and then appreciated in value. Since then Potomac Yard Fund revenues have been used to pay for the ongoing project expenditures primarily related to the EIS and WMATA costs. At the end of FY 2018 it is projected that the Potomac Yard Fund will have a fund balance of \$23 million which is projected to grow to nearly \$42 million by the end of FY 2021. Allocating \$25 million of that amount now towards the station costs lowers the amount that needs to be borrowed, but will leave some \$17 million in place as a back-up secondary contingent (beyond the \$30 million included in the station's \$320 million budget) until the station is complete by the end of FY 2021 or early 2022. Assuming that the station budget holds at \$320 million this \$17 million would be available in 2022 to reduce borrowing costs further. Long term debt service on the station debt would start in FY 2022 and will use the annual tax and developer contribution revenues of the Potomac Yard Fund as its ongoing annual funding source.

F. Other Sources (\$4 million)

Three early funding sources had also been previously identified for the Potomac Yard Metrorail station project funding. This includes a small amount of federal funding, early developer contributions, and City earned financial credits held by WMATA

G. Short-Term Bridge Loan

When the City signs the proposed funding agreement with WMATA it becomes a binding obligation, for which the City needs an offsetting funding source. Given the complexity of the multiple financing sources and the length of time before debt service payments begin, the City proposes to establish a short-term line of credit to provide a steady source of cash flow and to avoid the debt service payments on long term debt for as long as feasible. It is proposed that the City establish a line of credit with one or more banks to ensure the availability of \$210 million for the Potomac Yard Metrorail Station project next 3 to 5 years. This line of credit will assure that the City has access to funds to make the payments to WMATA. Due to the lower risk to lenders of short term debt (usually money center banks or institutional investors), the interest rates on these funds will be lower than the interest rates expected for 20 or 30-year debt. The short-term financing will enable the City to have a funding source in place to offset most of the obligation to WMATA that the City would incur under the Agreement. As the project progresses, the City will issue more traditional, long term, GO, TIFIA and VTIB debt, which will be used to repay the short-term notes and provide long term funding for the project. The short-term financing does not impact the City's outstanding debt or debt ratios, and will ultimately save money by deferring the debt service payments on GO debt until it is needed for project funding.

DEBT REPAYMENT STRUCTURE:

Throughout the development of this project, the financial feasibility has centered on the ability of the City to incur debt within its debt-related financial policies and pay for the debt from revenue generated from Potomac Yard development. The contemplated revenues to repay the Metrorail station construction bond borrowing and station operating costs based on the 2015 financing plan comes from three primary sources. First net new taxes revenues (i.e. gross taxes collected by the City less the estimated cost of delivery of City and School services to new Potomac Yard residents and businesses) generated from new development and economic appreciation in Potomac Yard. Second, taxes generated by the creation of two Special Services Districts (Tier I and Tier II), each with a supplemental tax rate. Third, developer contributions from the owner/developer of North Potomac Yard.

A. Special Services Districts (Tier I and Tier II)

The Special Services District includes two Tax Tiers. Currently, Tax Tier I which applies to North Potomac Yard and most commercial structures in South Potomac Yard is assessed an additional \$0.20 tax per \$100 of assessed value. Tax Tier II which would apply largely to single family and condo dwellings in south Potomac Yard is currently scheduled to begin paying \$0.10 per \$100 of assessed value, the calendar year after the opening of the station and would generate about \$0.5 million annually in tax revenues likely starting in 2022.

When the Tier II District was created, development had not occurred on those parcels and there were no residents within the District. Since then the District has substantially developed, and many of the new residents have since objected to the 10-cent District tax to fund the Potomac Yard Metrorail station. Council has discussed this tax issue a number of times, and decided to hold off the decision on whether or not to keep or remove the Tier II District until station costs and a financing plan were finalized.

B. Reconsideration of the Tax Tier II District

Dominion Energy approached the City of Alexandria several years ago regarding Dominion's proposal to construct a new 230-kilovolt underground transmission line between Alexandria and Arlington in the vicinity of Jefferson Davis Highway and Potomac Yard. The proposed transmission line project would add and upgrade equipment at the existing switching station on East Abingdon Drive in Alexandria, and connect it to the Glebe Substation on South Glebe Road in Arlington. The prior proposed location by Dominion for the line was the Potomac Yard CSX Rail Corridor. However, Dominion Energy has determined that the CSX alignment is no longer feasible due to costs and has been working with the City and adjacent stakeholders on a proposal that would shift the underground line to Potomac Avenue. The final proposed location will come before City Council likely in May. Dominion Energy would be required as part of this process to provide the City with compensation for the use of the public right-of-way. Given that this routing is close to the proposed Potomac Yard Metrorail Station and runs just to the east of the Tier II District, it is logical to use a portion of these funds for Metrorail Station costs. The location of the line must be approved by the State Corporation Commission (SCC), likely to occur by the end of 2019.

Given these new 230kV funds that were not previously contemplated, Tax Tier II may no longer be necessary if City Council decides in May to endorse the Potomac Avenue alignment for the Dominion 230kV Underground Line. Staff recommends repealing the Tax Tier II if at least \$15 Million of the Dominion Energy right-of-way compensation is approved by the SCC and becomes available for use towards the cost of the Metrorail Station. If City Council wishes to repeal the Tax Tier II, it can direct staff

to bring forward an ordinance amending Section 3-2-190 of the City Code so that the Tier II Special Tax District sunsets when the alignment of the 230kV line is approved. Staff will research the matter and will recommend an appropriate time in the approval process for the Dominion Energy 230 kV line for this trigger. If directed, it would be staff's intent to bring forward in May an ordinance which would repeal the Tier II District with this caveat.

C. North Potomac Yard Developer Contributions

Another source of cash funding for the station construction will come from developer contributions associated with the development of North Potomac Yard. The Coordinated Development District (CDD) Concept Plan Special Use Permit approved by Council in 2010 stipulated certain payments to the City in order to help mitigate the impacts of the new development in North Potomac Yard. Developer contributions have been planned to be used towards debt service payments.

Last year, City Council approved an update to the Small Area Plan for North Potomac Yard. The owner of North Potomac Yard will be requesting amendments to their existing CDD Special Use Permit (SUP) to be consistent with the revised Small Area Plan. The owner has indicated to the City the need to amend the 2010 contributions agreement (the "Memorandum of Understanding" or "MOU") for development in order to make development in their first phase financially feasible. If development in this area does not move forward, the City will not receive the developer contributions or the increased taxes, both of which are important resources towards paying future debt service costs of the Metrorail Station. Therefore, it is in the City's interest to see development occur in this area. The City has negotiated a restructuring of the contributions that allows the development to move forward while maintaining the financial commitment to the City. Staff will negotiate an amended MOU, consistent with the terms outlined below, and bring it to City Council for approval, likely in the Fall.

The current CDD SUP includes a requirement that the owner contribute \$10 per square foot of development for the first 4.9 million square feet of development or \$49 million towards the cost of the Metrorail Station. The payment is set to increase with annual CPI adjustments so that the payment in 2018 dollars is \$11.37. The new restructured developer contribution remains \$11.37 per square foot with a continued annual CPI adjustment but adds an incentive to support commercial development in the near term. The restructuring establishes a "catalyst phase" that allows office, retail and/or hotel development to forgo the contribution as long as a Development Special Use Permit (DSUP) is approved by May 1, 2021 and a Certificate of Occupancy is issued by May 1, 2028. After that date, the contribution will continue to apply to all development of North Potomac Yard (including commercial, retail and hotel development), until a total of 4.9 million square feet of development has paid the per square foot contribution. The result is that the total amount of the contribution will remain the same (after adjusting for inflation) as it was in the 2010 agreement, but the timing of the contribution will be deferred in the development's early stage to incentivize commercial development.

In addition to the per square foot contribution toward the Metrorail Station cost, the MOU will retain a provision for a "shortfall guarantee". The shortfall guarantee is the property owner's commitment that they will accelerate the square foot payments by contributing up to \$32 million of the total per square foot contribution before the development occurs if Potomac Yard tax revenues are insufficient to meet station operating costs and debt service. The restructured shortfall guarantee still commits the \$32 million but does so now in two phases. There is a \$16 million guarantee during Phase 1 of the North Potomac Yard development (east of Potomac Avenue) and a \$16 million guarantee during Phase 2 of the development (west of Potomac Avenue). While the proposal does break the original shortfall guarantee into two phases, it does not reduce the total obligation of \$32 million. This allows the developer enough financial certainty to

advance Phase 1 of the development, which helps generate the needed tax revenue to support the station financing.

Given the strong financing structure described in this memo, Staff is confident that the proposed developer contribution structure for the Metrorail station will continue to provide mitigation for transportation impacts this development will create while providing a key element of the funding needed for the Potomac Yard Metrorail Station. The phased guarantee will still provide the City with protection (although unlikely to be needed), and the developer contribution total amount remains the same over time as previously agreed to. Staff believes the changes represent a responsible restructuring of the contributions to incentivize the development but still provide the share of the costs of the new Metrorail station that should be borne by the new development.

FISCAL IMPACT: Because the Potomac Yard Metrorail Station is a “Reimbursable Project” with WMATA, the cost of the project is entirely the responsibility of the City of Alexandria. The City has developed and refined a financing plan that keeps the station self-funded through grants, developer contributions and taxes generated in Potomac Yard. Debt Service payments of approximately \$5.5 million will begin in FY 2022. Payments will ramp up to approximately \$15 million by 2035, start declining in 2049, and then continue until the last TIFIA loan payment is made, scheduled for 2056. Debt service payments for the entire project cost are currently estimated to be \$386 million. The station is expected to open in late 2021 / early 2022 and operating costs for the station will be shared in the same manner that all WMATA operating costs are allocated across the region. Based on the existing WMATA formulae the addition of one station will increase the City’s WMATA annual subsidy by about \$2 million per year. This is expected to be paid from the Potomac Yard Fund. All of these ongoing operating and debt service costs are projected to be paid for by developer contributions and ongoing taxes generated in Potomac Yard. It is projected that the City’s General Fund will earn \$1.9 billion from Potomac Yard revenues between now and when the City’s last debt service payments are made on the Potomac Yard project in 2056.

ATTACHMENTS:

- Attachment 1: WMATA Board Resolution 99-63
- Attachment 2: PY Metro Amended and Restated Funding Agreement
- Attachment 3: PY Metrorail Station Funding Agreement Presentation

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