City of Alexandria

City Council Chambers at Del Pepper Community Resource Center
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Alexandria, VA 22311

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Date	Ver.	Action By	Action	Result

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 5, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:
Proposed Revisions to the Potomac Yard Metrorail Station Memorandum of Understanding between the City of Alexandria and CPYR.

ISSUE: Revision of 2010 Memorandum of Understanding.

RECOMMENDATION: That City Council authorize the City Manager to execute the revised Potomac Yard Metrorail Station Funding Memorandum of Understanding (Attached) between the City of Alexandria and CPYR.

SUMMARY: In 2010, as a key element of the approval of the North Potomac Yard Small Area Plan as well as the related plans to construct a Metrorail Station in Potomac Yard, a Memorandum of Understanding ("MOU") was developed, agreed to and executed by the City and CPYR who is the owner of North Potomac Yard. In that MOU, CPYR agreed to pay the City $10 per square foot of development for the first 4.9 million square feet of the total 7.5 million square feet of planned development in North Potomac Yard. This $10 per square foot totaled some $49 million in 2010, would be paid at the time of each building's occupancy, and would be indexed for inflation to keep its real value to the City over time. These payments would be used to fund a portion of the debt service to be incurred to finance the planned Potomac Yard Metrorail Station.

Since 2010 development economics have changed, and in order that the first 1.3 million square foot mixed use development phase on the 20 acre movie theatre site can proceed, a revision of a few key terms of the 2010 MOU are necessary. As described in this memorandum, the proposed MOU: (1) creates a catalyst phase of development where this per square foot payment would not apply to hotel, retail and office development in the catalyst phase, but would apply to residential development, and (2) splits the original MOU's $32 million Shortfall Guarantee into two $16 million tranches. The MOU would still require that the $10 per square foot developer contribution be paid on 4.9 million square feet, as well as the MOU keeps nearly all of the original terms and conditions of the original MOU in place.

BACKGROUND: In the lead up and subsequent to the adoption of the North Potomac Yard Small Area Plan in 2010, the plan for the Station has been for it to be self-financing from primarily a combination of increased tax revenues, generated by Potomac Yard development, Special Tax District levies, and developer contributions. No existing City General Fund revenues have been or are now contemplated to be used to pay for the Station that is now estimated to cost $320 million. Since the station's original financing plan was developed, $70 million in grant funding was provided through the Northern Virginia Transportation Authority's new taxing authority, although increased station construction costs above the original cost estimates more than offset the value of those new grant funds. Not originally anticipated lower cost loan sources from the Commonwealth Transportation Board (VTIB loan) and federal Build America transportation loan program have also helped to improve the overall financing plan for the station.

The developer contributions planned in 2010 from CPYR were based on the conditions stipulated at the time of land use approvals. The developer of the land in South Potomac Yard is paying $2 million towards station costs (in addition to new infrastructure investments such as the replacement Monroe Avenue bridge, Potomac Avenue, a large sewer interceptor line, etc.), while the developer of the land in North Potomac Yard agreed to pay $49 million (in 2010 dollars) towards the Potomac Yard Metrorail station. The developer of North Potomac Yard is also contributing land for the north entrance of the station. The method of payment for the South Potomac Yard Metrorail station contributions are lump sum amounts due at specified trigger events, and the method of payment for North Potomac Yard Station contributions and the square foot amounts due at the time of completion of each building for up to 4.9 million square feet of development out of the 7.5 square feet of development planned in North Potomac Yard.

In 2010 when the North Potomac Yard Small Area Plan was approved, a MOU between the City and CPYR was executed. It outlined the terms and conditions under which CPYR was obligated to make the payments. The MOU also contained a shortfall guarantee by CPYR of $32 million for the entirety of North Potomac Yard in the event that the amount of tax revenues available to pay debt service on the station borrowing were insufficient, as well the MOU detailed how the $49 million in $10 per square foot contributions were to be made. The $10 per square foot contribution was also indexed to increase with changes in the Consumer Price Index so the economic value of that contribution did not erode with time. In 2018, that square foot amount is now $11.37 (which would then total $55.7 million for the 4.9 million square feet of development) and will continue to increase over time to track inflation to ensure that the value of the contribution does not diminish over the life of the development build-out of North Potomac Yard.

<u>Shortfall Guarantee</u>: In the eight years since the MOU was negotiated, development economics have become more challenging and plans have changed. As a result, revisions to the MOU have been negotiated between

CPYR and the City. The proposed new MOU is attached along with a red-lined version. Originally when the Station financing plan was developed there was a financial gap in the early years between generated tax revenues and projected debt service so a $32 million Shortfall Guarantee was agreed to in 2010, which would have more than filled in that gap. Now in 2018, no shortfall is project. The Shortfall Guarantee is structured, if drawn upon, to be an acceleration of a portion of the $49 million developer contribution and not additive to it. Given the developer's revised development timing plans to divide the development of North Potomac Yard into at least two development phases, the Shortfall Guarantee is also proposed to be divided. The new MOU retains a total Shortfall Guarantee of $32 million, but divides it into two equal $16 million tranches. The first $16 million Shortfall Guarantee amount will be provided for the 1.3 million square foot Phase I (i.e., east side of Potomac Avenue), and the second $16 million amount will be provided for the 6.2 million square foot remaining phases of development (i.e., the west side of Potomac Avenue). Given the developer's immediate plans are to develop Phase I, burdening that Phase with the entire development's $32 million Shortfall Guarantee became problematic.

It should be noted that the $32 million Shortfall Guarantee was $11 million higher than needed at the time of a development of the 2010 financing plan, because it was put in place prior to the finalization and refining of the Station financing plan. Since then, more flexible borrowing sources became available, and with the delayed Station project timing compared to the 2010 plan, projected generated tax revenues in Potomac Yard no longer indicate that a shortfall is likely. In the unlikely event that a shortfall does occur, the two tranche Shortfall Guarantee totaling $32 million will be available to the City.

<u>Per Square Foot Developer Contributions</u>: Second, in realization that the office, hotel and retail development economics remain challenging, the revised MOU proposes that as a catalyst phase the per square foot developer contributions not be applied to the Phase I's 0.5 million square feet of office, hotel and retail development. It would apply to the 0.8 million square feet of residential development in Phase I. The exempted 0.5 million of square footage in Phase I would be added (including adjustments for inflation) to the amounts due in Phase II so that in total the developer would still pay on 4.9 million square feet of development for North Potomac Yard. This treats and incents the commercial elements of Phase I of development as a catalyst phase, but recovers the funds in Phase II of development. This creation of lower financial requirements for Phase I is consistent with some other development areas of the City where lower developer contributions were structured during the more risky catalyst phase of development compared to later less risky phases of development.

<u>FISCAL IMPACT</u>: The proposed revisions to the MOU will have a positive fiscal impact on the City in that it will (1) enable a 1.3 million square foot economic development to proceed which will generate about $5 million in annual new tax revenues to the City which will help fund a substantial portion of Potomac Yard Metrorail Station annual debt service. When Potomac Yard tax revenues are greater than debt service, then these funds would flow into the City's General Fund, and (2) result in the maintenance of the developer's original $49 million (2010 dollars) contribution obligation, albeit with a shift in timing of the payment of that $49 million. The proposed splitting of the Shortfall Guarantee of $32 million into two $16 million tranches should have no fiscal impact on the City as it is not projected that these Shortfall Guarantees will be needed to be drawn down.

<u>ATTACHMENTS</u>:

1. Proposed Amended Memorandum of Understanding between the City of Alexandria and CPYR
2. Redlined version of Proposed Memorandum of Understanding between City of Alexandria and CPYR.

<u>STAFF</u>:

Jeff Farner, Deputy Director, Planning and Zoning