



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 2, 2014

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER/s/

DOCKET TITLE:

Introduction and First Reading. Consideration. Passage on First Reading of an Ordinance to Amend the Performance Standards of the Eisenhower Science Redevelopment District.

ISSUE: Amendment facilitating the implementation of the National Science Foundation headquarters project.

RECOMMENDATION: That City Council approve on first reading, and set for second reading, public hearing and adoption on April 12 an ordinance (attached) to amend the performance standards of the Eisenhower Avenue Science Redevelopment District.

BACKGROUND: In June of 2013 the federal General Services Administration (GSA) announced that the Hoffman Town Center site at 2401 Eisenhower Avenue in the City of Alexandria was selected in a Northern Virginia regional GSA-run competition to be the site of the National Science Foundation's (NSF) new headquarters. City Council, the Alexandria Economic Development Partnership (AEDP), and a number of developers in the City had worked on entering three sites in Alexandria into this important, highly competitive NSF site selection process. The resulting GSA awarded NSF lease of 680,848 rentable square feet of office space at 2401 Eisenhower Avenue was the largest executed private or public sector office space lease award in the Washington, D.C. metropolitan area in 2013.

NSF is an independent federal agency, and is the leading funder of basic science and engineering research in the United States. NSF funds approximately \$7 billion in science grants annually which represents about 20% of all basic science research funding at colleges and universities in the United States. NSF employs about 2,100 persons at its headquarters operations and has indicated that it generates up to 90,000 hotel room nights annually. These hotel room nights are generated mostly in the area near the NSF headquarters by the members of the numerous grant panels that NSF operates during the year. These panels are comprised of the leading scientists and researchers (including Nobel laureates) from the United States and around the world, who are subject matter experts in particular science or engineering grant research areas.

It was projected in a 2012 Delta Associates study that NSF would generate some \$73 million in new taxes to the City over a 15-year period and \$95 million in new taxes if the NSF lease was eventually extended to 20 years. These tax generation projections were calculated using a very conservative assumption of 60,000 hotel room nights, and if the higher 90,000 hotel room nights were used the tax benefit to the City grows to between \$83 million over 15 years to \$109 million over 20 years. Since the GSA selection process was very price driven, and the NSF's economics and impact were enormously positive to the City, it was determined that the City would partner with the two developers whose sites were finalists in the GSA NSF competition to offer a substantial real estate tax abatement incentive as a way to assist in driving the lease price to GSA and NSF down to a very competitive level. That strategy was successful, as the Hoffman Town Center submitted the lowest cost proposal of all those proposals submitted by building and site owners for the NSF competition. NSF moving to Alexandria represents, after the U.S. Patent and Trademark Office headquarters, the next largest single economic development achievement in the City in recent decades.

In order to implement that tax incentive, the City created the Eisenhower Avenue Science Redevelopment District (whose boundaries encompass the NSF future building only) and provided a full 100% real estate tax abatement on the building (the land remains fully taxed) for the first eight years of NSF occupancy, and then the tax abatement is reduced downward 10% per year until it reaches 30% in year 15. In year 16, the NSF building would be fully taxable. The value of the abatement from the previously cited tax gains is estimated at \$28.2 million over the fifteen year period. After deducting the abatement this results in a net tax gain to the City of \$55 million to \$81 million over a 15 to 20-year period.

In October Council officially enacted the ordinance to establish the NSF tax abatement via the creation of the Eisenhower Avenue Science Redevelopment District, which included the tax abatement definition, the percentages of real estate tax abatement set for each of the 15 years, performance criteria which set parameters for NSF occupancy to qualify for the tax abatement, as well as "in the event of sale to the federal government" real estate tax payment criteria to protect the City. The ordinance was put in place in October so that it could be relied upon when the project was finalized and financing commitments sought.

DISCUSSION: Subsequent to the GSA award last June, the project design was finalized with Council approving a minor amendment for height last October. Work with GSA and NSF was initiated to plan the interior of the building, and the final site plan documents were completed and approved by the City, and the initial building excavation permit has been issued. During this time period financing for the NSF building was sought for this facility whose cost is estimated at more than \$250 million. The owners of the NSF site selected a large institutional investor who is a long-term real estate investor to provide the funding for this NSF building project. This ensures that the NSF project will continue to move forward on schedule, and as planned.

During the extensive due diligence for this funding transaction, it became evident that one of the technical performance standards that the City had enacted was problematic from the point of view of the entity funding the project.

Specifically, when the ordinance was written, a performance standard was set which required an 80% NSF occupancy in year one and then continually for each year during the entire 15-year course of the NSF lease. The proposed funder of the NSF project has flagged the long-term continuous 15-year nature of the 80% performance standard as a risk that they see as an obstacle to funding this project. This is a conservative risk management view, but derives from a viewpoint of eliminating or reducing downside risks - no matter how improbable. This institutional investor has completed all due diligence and has provided its funding commitment to the current owner contingent only on the City amending its ordinance to address this 15-year 80% performance standard issue. Once this ordinance is amended as proposed, staff has been informed that this transaction will proceed immediately to closing.

The funding by an institutional investor of a federal government long-term fully-leased land use-entitled office building with a Class A federal agency tenant, it is akin to buying a highly-graded government bond. Also, since the NSF lease rate schedule is set for the 15-year period, there is a known but fixed income stream (i.e., no periodic “windows” for renegotiating lease rates). This puts the NSF building and its lease in an investment class where the risks are about as minimal as one would get in office building real estate investing.

NSF is a highly stable federal agency with wide support both in Congress, in colleges and universities across the country, and has been a proven contributor to national economic growth and innovation (i.e., it funded a document search development project at Stanford that eventually led to the formation of Google). As a result, the probability that NSF’s funding would be materially reduced and its office lease footprint substantially reduced appears minimal. This building is being custom designed for NSF, as well as significant outfitting expenses are being paid by the developer for NSF. Also, NSF initially sought more space than the 680,848 square feet, but Congress cut that back. As a result NSF starts its occupancy short of its needed office space, so if anything is likely it is that NSF in the future will expand outside of its new headquarters into nearby office buildings. However, that all said, these are judgments of probabilities and not legal guarantees, hence the funding entity’s concerns.

Since City and AEDP staff view the possibility of NSF leasing less than 80% of the building as highly improbable during the 15 years of its lease, City and AEDP staff are comfortable with changing the 80% 15-year requirement to a 80% one-time snapshot requirement to be measured after the final certificate of occupancy is issued. This is a shift of risk to the City, but a very minimal one for a project with a very high return for the City.

FISCAL IMPACT: There is no negative financial impact of amending the performance standard as proposed, as it is intended to preserve the substantial net tax gains that the City had previously projected. The proposed abatement schedule is not proposed to change nor is its 15 year cost estimate of \$28.2 million. The expected net tax benefit of \$55 million to \$81 million over the 15 to 20 year period of the NSF lease and a possible extension is also not projected to change.

This reflects the addition of 4,300 new jobs (NSF and private sector) to the City’s employment base, as well as the construction of at least two hotels and new office space.

ATTACHMENT: Proposed Amendment to the Eisenhower Science Redevelopment District

STAFF: Mark Jinks, Deputy City Manager
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