File #: 14-4346, **Version:** 1

City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 2, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:
Introduction and First Reading. Consideration. Passage on First Reading of an Ordinance to Create the Eisenhower West Victory Center Redevelopment District for the Purposes of Incenting the Transportation Security Administration to Move to Alexandria.

ISSUE: Increasing economic and tax base growth in the City by incenting the Transportation Security Administration to select Alexandria as the site of their new headquarters.

RECOMMENDATION: That City Council approve on first reading of the proposed ordinance (attached) creating the Eisenhower West Victory Center Redevelopment District, and schedule it for second reading, public hearing, and final passage on September 12, 2015.

BACKGROUND: With the Transportation Security Administration (TSA) current office building lease in Arlington and three other smaller sites in Northern Virginia expiring, the General Services Administration (GSA), on behalf of the TSA formally initiated in the Spring of 2014 a competitive process within Northern Virginia to select a headquarters for its current operations through leasing a new or existing office building. The geographic area was limited to a one-half mile radius from any Metrorail station in Northern Virginia that could be operable by the 2nd Quarter of 2015. The GSA released the formal Request for Lease Proposal document on July 14, 2014 with formal detailed responses due by August 15, 2014.

Numerous developers and property owners submitted formal proposals, including two developers with sites on Eisenhower Avenue in Alexandria (JBG/Hoffman Town Center and Prudential/JLL Victory Center). The JBG/Hoffman proposal entailed the construction of a new 600,000 square foot office building for TSA; while the latter proposed fit-out nearly all of an existing 610,900 square foot office building and the construction of a new smaller, adjacent 140,600 square foot support facility (Attachment 1 depicts the proposed site plan). On August 12 of this year, GSA on behalf of TSA, finished its selection process and announced the selection of the Victory Center on Eisenhower Avenue in Alexandria as it planned future site of TSA. A 15-year lease was executed by GSA and owners of Eisenhower Real Estate Holdings, LLC, a pooled investment fund owned entity managed by Prudential, just prior to the announcement.

The TSA is a federal agency created by Congress in November 2001 following the terrorist attacks of September 11th. Originally established under the Department of Transportation, TSA was transferred to the Department of Homeland Security (DHS) in March of 2003, immediately following DHS's formation. The TSA's mission is "to protect the Nation's transportation systems to ensure freedom of movement for people and commerce." With an annual budget of about $7.36 billion (FY 2015), TSA's multiple headquarters components employ approximately 3,800 professionals.

The regional competition for the TSA headquarters spanned a multi-year period and was intense given the direct economic value of TSA and the business and economic spin-off that TSA would create. The TSA lease solicitation and decision making process by GSA was also a very price-focused competition. While setting specific requirements for the TSA building, the bottom line cost to the federal government of the lease (including pass-throughs to the federal government of real estate taxes) was the primary decision making factor. As a result, the City offered a partial real estate tax abatement as a way of lowering TSA's lease costs. This partial real estate tax abatement offer was key in the federal decision to award the TSA lease.

Under the tax abatement proposal, real estate taxes on the new TSA office building and other improvements would be partially abated over the 15-years of the TSA lease up to a maximum amount of $1,557,290. Taxes on the land and existing building would continue to be fully levied by the City including growth in value of the existing building and land during the entire term of the lease.

The cost of the abatement is estimated at $23 million in today's dollars over the 15-year period of the TSA lease. During this 15-year period, the property owner would pay about $24 million in real estate taxes to the City based on taxes levied on the existing building and land on which the TSA new building will be constructed, and existing building improved. These amounts are subject to changes in the real estate tax rate and the actual level of real estate assessments which are determined by the City's Real Estate Assessments office annually.

The real estate tax abatement would be established by creating a proposed "Eisenhower West Victory Center Redevelopment District" which would be defined to include only the existing and new TSA buildings. All other adjacent existing real estate including the value of other buildings that may be constructed to house the TSA contractor tail, or to fulfill any other TSA spin-off needs outside of the currently planned facility, would be fully taxable.

Other features of the proposed real estate tax abatement for TSA include:

- The abatement period starts the first calendar year after the issuance of the first certificate of occupancy for TSA. This means that the construction in progress prior to the issuance of that first certificate of occupancy is assessed and fully taxed per usual and customary City practices.
- The annual real estate assessment on the building and land are to be conducted per usual and customary City practices in place for the annual assessment of all property in the City.

- For the tax abatement to start, (1) the property owner needs to spend $125.0 million on construction and tenant outfit costs, and (2) TSA has to occupy at least 80% of the expanded Victory Center building space.

TSA intends to initially occupy 90% of the renovated and expanded Victory Center building.

- In accordance with State law, which authorizes partial real estate tax abatements, this partial tax real estate tax abatement cannot be reduced during the 15-year abatement period, and will be recorded in the City's land records. This provides the needed surety to the property owner and TSA that the proffered tax abatement cannot be reduced or withdrawn at a later date.

- In the unlikely event that the federal government decided to purchase the building during the first 20 years after initial TSA occupancy, the property owner would be liable at the time of the sale for paying to the federal government the future City real estate taxes calculated from the point of sale to the 20-year mark. It should be noted that based on City policy, the City would oppose any sale to the federal government which would remove a taxable property from City tax liability. However, in the unlikely case that the federal government did buy the property, then the City would receive one-time substantial compensation. Those in-event-of-sale to the federal government terms are identical to those that were established for the NSF's partial real estate abatement.

- There are no restrictions on the ability to the City to levy, increase, or decrease taxes and fees on this property, its owner or its occupants.

FISCAL IMPACT: TSA's presence in the Eisenhower West part of the City can be a catalyst for development and investment in that area, and should encourage the completion and immediate implementation of the Eisenhower West Small Area Plan. While TSA will receive an up to $1,557,290 annual partial real estate tax abatement for 15 years, the TSA headquarters is projected to generate $24 million in real estate taxes over that 15-year period. The addition of the 3,800 daytime employees on site with their meals, sales and hotel tax activity would increase this tax generation projection, as would the business related tax revenue generated by any government contractors who relocate to Alexandria due to TSA's presence.

ATTACHMENTS:

Attachment 1: Proposed site plan for TSA headquarters
Attachment 2: Ordinance Cover
Attachment 3: Ordinance

STAFF:

Mark Jinks, City Manager
Stephanie Landrum, President and CEO, AEDP
Kendel Taylor, Director of Finance
Michael Stewart, Deputy Director, Department of Finance
Chris Spera, Deputy City Attorney
W. Bryan Page, Real Estate Assessor