



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 7, 2021

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 Landmark Community Development Authority ("CDA").

ISSUE: Creation of the Landmark CDA in order to provide the necessary financial backstop to ensure that the City's \$86 million investment in the Landmark Mall redevelopment is fully repaid.

RECOMMENDATION: That City Council:

- 1) Introduce the Landmark CDA ordinance (Attachment 1), pass the ordinance on the first reading and schedule it for second reading, public hearing, and final passage on Saturday, September 18, 2021; and
- 2) After public hearing on September 18, 2021:
 - a. Adopt the Landmark CDA ordinance with the addition of the appointment of five City Council members as the members of the CDA board with terms co-terminus with their current Council term of office in Articles of Incorporation (Attachment 2); and
 - b. Authorize the City Manager to execute on behalf of the City, between the City, Landmark CDA, Industrial Development Authority of the City of Alexandria ("IDA"), Landmark Mall, LLC, Seritage SRC Finance, LLC, Landmark Land Holdings, LLC, a Memorandum of Understanding ("MOU") (Attachment 3), consistent with the Development and Financing Agreement, laying out the improvement financing plan, the development of improvements and the process of calculation and collection of incremental tax revenues and special assessments.

BACKGROUND: Following City Council approval and authorization on July 6 to execute the Landmark Redevelopment Agreements, the City Manager executed (a) the Development and Financing Agreement between the City, Landmark Land Holdings, LLC, and Inova Health Care Services, and (b) the Grant Agreement between the City and the Industrial Development Authority of the City of Alexandria, on July 30, 2021. On August 6, 2021, as expected, the City received a petition (Attachment 4) from the two fee simple owners (Seritage and a subsidiary of Howard Hughes Corporation) representing 100% of the Landmark Redevelopment land area or assessed value of the land (legal description of initial parcels, tax map parcel numbers, and initial boundaries further described in Exhibits A, B, and C of Petition) that petitioned for the creation of the "Landmark Community Development Authority".

The Community Development Authority Act was enacted in Virginia in 1993. It was codified as Va. Code Article 6, Chapter 51, Title 15.2 (§§15.2-5152 et seq.) as part of Water and Waste Authorities Act. The first CDA in Virginia was formed in 1998 and issued

bonds for Dulles Town Center infrastructure in Loudoun County. The CDA is a financing tool available to local governments that enables partnering with the private sector to provide infrastructure improvements and services. A CDA is a separate political subdivision which can be created by the locality for a specific development and may include voluntary special assessments imposed on the landowners within the CDA district if so requested and agreed to by the landowners. CDAs are generally created to facilitate the financing of infrastructure improvements and the provision of services made necessary by development or redevelopment within the CDA district and to generate revenues to support the acquisition of improvements and the delivery of services through special ad valorem taxes or assessments on property within the CDA district or other arrangements such as synthetic tax increment financing (TIF) (a performance-based financing arrangement pursuant to which the locality agrees to appropriate amounts equal to all or a portion of the incremental tax revenues realized from the CDA district above an agreed upon base amount). Fairfax County (Mosaic District), Arlington County (Ballston Quarter), and other Virginia localities have created CDAs to facilitate development and redevelopment.

For the City, the Landmark total redevelopment, including the impact of moving Inova from its current site, would generate \$1.040 billion in tax revenue over a 30-year period and create a town center for the West End of the City. Excluding the cost of financing, the transaction involves \$140 million in direct public participation comprising (1) an \$86 million investment in infrastructure improvements at and adjacent to the site (plus capitalized interest) to be funded through a plan of synthetic tax increment financing backstopped by special assessments imposed on the property within the CDA district, and (2) a \$54 million purchase of land and parking space rights for the hospital site by the IDA, which will then lease the land and associated parking easements to Inova. City Council adopted an ordinance on July 6, 2021 authorizing the issuance by the City of general obligation capital improvement bonds to cover, among other things, Landmark Redevelopment related improvements, land acquisition, and capitalized interest.

DISCUSSION: The proposed development will transform the unoccupied, enclosed 51.4 acre mall site into a mixed-use, walkable urban village. Inova, the leading nonprofit health care provider in Northern Virginia, is investing an estimated \$1 billion to create a new medical campus, anchored by the relocation, expansion, and upgrade of its Alexandria Hospital to a Level II Trauma center with more than 2,000 health care workers employed. Development plans for the balance of the site include residential, retail, commercial, and entertainment offerings integrated into a cohesive neighborhood with a central plaza, a network of parks and public spaces, and a transit hub serving bus rapid transit, DASH, and Metrobus. Affordable and workforce housing will be built in part through developer contributions and will be co-located with a new Alexandria Fire-EMS station, replacing the outdated nearby Station 208.

The total infrastructure improvements at and adjacent (*i.e.*, Van Dorn and Duke Streets) to the site are estimated to cost \$140.25 million with City contributing \$86 million and Developer contributing \$54.25 million. This City infrastructure investment of \$86 million (plus between \$10 million and \$20 million in capitalized interest needed until the projected Incremental Tax Revenues realized from the redevelopment of the site equal or exceed debt service incurred to finance such improvements) will be financed through the issuance of general obligation capital improvement bonds ("City Bonds") that are intended to be repaid from synthetic Incremental Tax Revenues (real property tax, retail sales and use tax, meals tax, and transient lodging tax) generated from the Landmark site. Other City taxes which will be directly generated by the Landmark redevelopment (personal property, business tangible, business and professional license, utility, real estate transfer and other miscellaneous taxes) will not be considered Incremental Tax Revenues. The base year tax revenues for calculating the Incremental Tax Revenues are the tax revenues collected by the City from the CDA district for fiscal year 2021. These Incremental Tax Revenues will be separately accounted by the City. While the City has not created a CDA previously, the City has experience accounting and tracking such incremental tax revenues as part of its responsibilities administering the Special Services Districts created for the Potomac Yard Metrorail Station.

The City intends to backstop the synthetic TIF with special assessments to be imposed on the taxable property comprising the CDA district. The special assessments will provide a second source of funds to reimburse the City for debt service paid on the City Bonds to the extent Incremental Tax Revenues are insufficient to timely pay such debt service. However, the special assessments may only be imposed upon the request and agreement of the owners of the land comprising the CDA district and can only be collected and applied as approved by the CDA. Thus, the City can only access the additional security for the financing of the infrastructure improvements (*i.e.*, the special assessments) through the establishment of the CDA.

The CDA board will be composed of five (the State law limit for Cities) City Council members, whose sole role, in the case that Incremental Tax Revenues are not sufficient to repay debt service, is to cause the collection from property owners of the portion of the annual installments of the special assessments necessary to cover any debt service shortfall. All members of the CDA board shall be appointed by City Council. Members of the CDA board shall be selected from and shall at all times be members of City Council. Each member of the CDA board shall serve a term concurrent with their respective term as a member of City Council, including the initial members of the CDA board.

Not later than September 15 of each year, commencing September 15, 2027, the CDA shall request the City to collect annual

installments of the special assessments pursuant to Virginia Code Section 15.2-5158(A)(5) in amounts to be determined in accordance with the Rate and Method of Apportionment of Special Assessments (Attachment 5); such special assessments may be zero for a particular collection date to the extent that Incremental Tax Revenues collected in the preceding fiscal year are sufficient to pay, or reimburse the City for payment of, the debt service due on the City Bonds in such fiscal year.

In making the above request, the CDA shall provide such information as the City may require to enable the City to collect the annual installments of the special assessments. Following receipt of such a CDA request, the City Manager shall ask City Council to approve the collection of the applicable annual installment. Each annual installment shall be collected on the applicable November 15 due date for real property taxes (commencing November 15, 2027) and shall be in an amount equal to the debt service that was due on the City Bonds in the preceding fiscal year less the incremental tax revenues collected in such fiscal year. So long as any CDA payment obligations remain outstanding, the City shall collect the annual installments and shall be entitled to retain the amounts collected in satisfaction of the CDA's payment obligations.

The \$54 million for land acquisition by the IDA to benefit Inova is not supported by the synthetic TIF or the special assessments, as Inova is exempt from property taxes, but from prior calculations, once Inova's existing site on Seminary Road is redeveloped, those new tax revenues are forecasted to provide ample coverage for the debt service on the \$54 million land acquisition price.

FISCAL IMPACT: For the City, the Landmark Redevelopment would generate an estimated \$1.04 billion in tax revenue over a 30-year period from Landmark and create the opportunity to redevelop the Seminary Road Inova site into taxable residential use. After deducting estimated debt service of \$278 million for both the infrastructure improvements and the land purchase, the net gain for the City to pay for Landmark and citywide services over that timeframe is estimated at \$762 million. This net gain does not include new tax revenues created by the positive economic impact of the redevelopment of sites adjacent to or near the Landmark Redevelopment and the Seminary Road sites.

The City proposes to issue one or more series of City Bonds in a maximum aggregate principal amount sufficient to (i) generate \$86,000,000 in net construction proceeds available to pay the costs of the infrastructure improvements and (ii) pay capitalized interest on the City Bonds. To the extent that the Incremental Tax Revenues are less than the amounts due on the City Bonds, the City shall be entitled to seek reimbursement for any City funds applied to pay debt service on the City Bonds through the collection of annual installments of the special assessments.

The CDA will establish special assessments on taxable property within the CDA district as a source of funds available to reimburse the City for debt service payments on the City Bonds in the event that the Incremental Tax Revenues are insufficient to timely pay such debt service. The Rate and Method of Apportionment of Special Assessment sets forth the annual assessment roll assuming debt service at an interest rate of 4.5%. 4.5% is a fairly conservative (i.e. high) assumption going back over a decade. Higher than this conservative interest rate assumption of 4.5% could dampen parcel developers' interest in redevelopment, resulting in higher market risk. Therefore, it is reasonable for the City to choose a conservative enough interest rate assumption for the CDA backstop in alignment with its AAA credit rating. Even at interest rates higher than 4.5%, the currently estimated Incremental Tax Revenues should be more than sufficient to cover that potentially higher incremental financing cost.

The Rate and Method of Apportionment of Special Assessment also assumes that any parcel that receives an exemption or a deferral of real property taxes pursuant to the Tax Relief for the Elderly & Disabled (to include Deferrals) City Ordinance, Title 3, Chapter 2, Article L; §3-2-160 et seq. (as such may be subsequently modified), shall also receive a deferral of payment of the annual installments of the special assessments until such time as the parcel is transferred (except for a transfer that results solely from the death of the qualifying spouse). Any parcel that is exempt from real property taxes pursuant to the Code of Virginia § 58.1-3219.5 (exemption from taxes on property for disabled veterans) or § 58.1-3219.9 (exemption from taxes on property of surviving spouses of members of the armed forces killed in action) shall also be exempt from payment of the annual installments of the special assessments as long as such exemption applies to the real property taxes for such parcel.

Separately, the City proposes to issue one or more series of general obligation bonds in a maximum aggregate principal amount sufficient to (i) generate \$54,000,000 in net proceeds available to fund IDA's purchase of the Inova Site and (ii) pay capitalized interest on the general obligation bonds. From prior calculations, once Inova's existing site on Seminary Road is redeveloped, those new tax revenues are forecasted to provide ample coverage for the debt service on the \$54 million land acquisition price.

ATTACHMENTS:

1. Landmark Community Development Authority Ordinance
2. Proposed Articles of Incorporation
3. Memorandum of Understanding

4. Petition to Create Landmark CDA
5. Rate and Method of Apportionment of Special Assessment

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