



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 16, 2023

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES F. PARAJON, CITY MANAGER /s/

DOCKET TITLE:

Authorization of the Execution of Proposed Amendments to the Landmark Development and Financing Agreement.

ISSUE: Approval of proposed amendments to the Landmark Development and Financing Agreement (“Development Agreement”).

RECOMMENDATION: That City Council:

1. Authorize the City Manager to execute the proposed amendments to the Landmark Development Agreement consistent with the attachment to this memorandum; and
2. Direct the City Manager, subject to the receipt of landowner petition, to bring forward for Council consideration and first reading at a future Legislative Meeting, an ordinance amending the Landmark Community Development Authority (“CDA”).

BACKGROUND: The Landmark Redevelopment public-private partnership between the City, Landmark Land Holdings, LLC (“Developer”), and Inova Health Care Services (“Inova”) (collectively “Parties”) entails redeveloping the 51-acre Landmark Mall site into a mixed-use, walkable town-center type development. Inova, the leading nonprofit health care provider in Northern Virginia, would relocate its current Alexandria hospital and invest an estimated \$1 billion to create a new medical campus anchored by a new regional Level II Trauma Center Hospital, a Cancer Center and at least one medical office building, and more than 2,000 health care workers. Development plans on the balance of the site by the Developer 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 would be enhanced through Developer contributions and co-location with community facilities such as a new Alexandria Fire-EMS station to replace the outdated nearby Station 208. Following City Council

approval and authorization, on July 6, 2021, to execute the Landmark Redevelopment Agreements, the City Manager executed the Development Agreement between the Parties on July 30, 2021. After public hearing on September 18, 2021, City Council adopted the Landmark CDA ordinance that enable special assessments to be imposed on the taxable property comprising the CDA district to provide a second source of funds to reimburse the City for debt service paid on the general obligation capital improvement bonds (“City Bonds”) to the extent Incremental Tax Revenues are insufficient to timely pay such debt service. The City also funded the Industrial Development Authority of the City of Alexandria’s \$54 million purchase of a portion of the former Landmark Mall site to be leased to Inova for its medical campus. The price also includes an easement and rights to use 550 parking stalls in the existing Landmark Mall garage, which will remain after redevelopment.

DISCUSSION: At the time of execution of the Development Agreement in July 2021, the total infrastructure improvements at and adjacent (*i.e.*, Van Dorn and Duke Streets) to the site were estimated to cost \$140.25 million based on a conceptual stage of design with City contributing \$86 million and Developer contributing \$54.25 million.

Through a competitive bidding process based on the infrastructure site plan advanced since then, the Developer estimated the development budget for the infrastructure improvements to have increased by approximately \$62 million prior to value engineering. The cost increase is a factor of various events including advancement of design and engineering, infrastructure, parks and open space scope refinement, supply chain disruptions, material and labor cost increase due to both inflation and shortages, and regional competition due to the prevalence of major projects stimulated in part by federal infrastructure funding.

While the Developer was able to value engineer approximately \$17 million in savings, the overall cost for infrastructure improvements has increased by approximately \$45 million based on executed guaranteed maximum price construction contracts for approximately 70% of the infrastructure costs.

Additionally, compared to the macroeconomic circumstances when the original Agreement was executed in 2021 the unanticipated interest rate hikes coupled with illiquidity of the debt markets further worsened by the collapse of regional banks have resulted in a deterioration of asset values. This poses challenges to underwriting further private investment in the project.

The proposed 5th amendment (Attachment A) to the Development Agreement includes the following:

- The proposed funding plan to address this funding gap:
 - The Developer will cover approximately \$7.5 million of the funding gap by waiving fee on increased costs and increasing its equity contribution, further reducing its developer fee, and shifting a portion of the infrastructure improvement costs to individual vertical parcel developments.
 - The City will fund \$37.6 million of the funding gap through the increased issuance of City Bonds 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. The CDA will increase the special assessment backstop to account for this increased issuance.
- Additionally, the Developer has agreed to the following:
 - Dedication of Block D as workforce housing. Developer will also coordinate with the Office of Housing on a quarterly basis starting in the first quarter of 2024 and continuing until approval of Block D’s DSUP in order to explore tools and opportunities to create deeper affordability. City staff and Developer will report on these efforts on a semi-annual (*i.e.*, twice yearly) basis

- to the City.
- Developer to issue a Deed of Trust on Block J as a further backstop to the Developer's special assessment obligations, which allows the City to foreclose on that block in the unlikely event that both the synthetic TIF and CDA special assessment on the Developer and affiliates do not cover their portion of the CDA's debt service shortfall associated obligations.
- Exploration of exemption/removal of Block J (Affordable Housing/Fire Station) from the CDA and a future business improvement service district to increase feasibility of affordable housing.
- Developer support of local businesses
 - Starting third quarter 2023 and throughout the term of the agreement, the Developer will coordinate with Alexandria Economic Development Partnership (AEDP) on a quarterly basis to conduct outreach to local retail business for leasing.
 - Starting 2024 and throughout the term of the agreement, the Developer will aim to participate in community events in the City on a quarterly basis to provide leasing information to small businesses.
 - If a Business Improvement District ("BID") is established, for as long as the Developer elects a majority of the BID board, the Developer will ensure the BID continues the quarterly AEDP coordination meetings and will provide leasing information to small businesses.
 - On-Site Pop-Up Space: The Developer will identify and make available to local businesses warm lit unleased space not less than 5,000SF comprising of up to three independent retail spaces within Phase I onsite buildings for use as pop-up space in coordination with appropriate City of Alexandria small business programs. Each pop-up operator will be given a minimum of 90 days to operate with their license agreement becoming month to month after the initial 90 days. This on-site pop-up program shall exist for a period of two years.
- Sustainability: With the submission of each forthcoming DSUP for a parcel controlled/owned/developed by the Developer, the Developer will include a memo describing the efforts undertaken to identify and utilize available local, state, and federal programs, including CPACE, to further improve the energy efficiency of the proposed building. Developer and the Office of Climate Action will coordinate on a quarterly basis starting in the third quarter of 2023 until approval of each DSUP to explore tools and opportunities to leverage such programs to improve energy efficiency and other sustainability performance of the proposed building.
- Accounting and performance assurance: As part of any draw request against the funds posted in support of the performance assurance, the Developer will provide an independent 3rd party certification of the amounts spent on the Project from a CPA or certified auditor (with experience/certification in similar projects) pursuant to the terms of the Development Agreement as amended and the Amended and Restated Escrow Agreement. 50% of any savings related to performance and payment bonds program projected by the Developer prior to final City Bonds issuance will be used to reduce City's final bond issuance. To the extent the total project costs less than the updated funding plan after the City bonds for the project have been issued, the difference will be expended by the Developer for physical enhancements to the public parks and other open space in the Project that are acceptable to the City.

FISCAL IMPACT: The City proposes to increase Landmark Redevelopment related City Bonds in a maximum aggregate principal amount sufficient to (i) generate \$37,600,000 in net construction proceeds available to pay the increased costs of the infrastructure improvements and (ii) pay associated capitalized

interest on the City Bonds.

For the City, the Landmark Redevelopment is estimated to generate \$1.15 billion in tax revenue over a 30-year period from Landmark development site and redeveloping the current Seminary Road Inova site into taxable residential use. After deducting estimated total debt service of approximately \$344 million for both the infrastructure improvements and the land purchase, the net gain for the City to pay for Landmark and citywide services is \$810 million. This net gain does not include new tax revenues created by the positive economic impact of the redevelopment of sites adjacent to and near the Landmark redevelopment site.

ATTACHMENTS:

1. Fifth Amendment to Landmark Mall Development and Financing Agreement
2. Presentation

STAFF:

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Emily A. Baker, Deputy City Manager

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