Ballston Quarter Redevelopment

Adoption of Ordinances to Establish Community Development Authority

Staff Presentation to the Arlington County Board

July 19, 2016
• Board action requested would be the first step in legal establishment of the Ballston Quarter Community Development Authority (CDA)

• Follows on multiple actions by the County Board, with several more actions in coming months
Background on Ballston Quarter & Need for Public-Private Partnership
A formal partnership between the County and private entity that utilizes strategic public investments in a private development project that benefits the community as a whole.

The Project Must Be Unique and Catalytic, and Advance Plans and Policies in an Exceptional Way.

The Public Investment Must Be Strategic, Mitigate Risk, And Result in A Net Positive Fiscal Impact That Would Not Exist “But For” That Strategic Public Investment.
Objective & Criteria for the Proposed Ballston Quarter PPP

**Objective:** A redeveloped Ballston Quarter that is transformative, catalytic, and positively impacts the fiscal health of the Ballston neighborhood and Arlington as a whole.

- **Placemaking benefits**
- **Advances long-range plans & policies**
- **Risk is appropriately mitigated**
- **Broader & measurable economic and fiscal impact**
- **Public investments are strategic and benefit the public**
- **Private investment alone cannot achieve vision**
- **The cost of inaction**
- **Unique nature of project**

The Project Must Be Unique and Catalytic, and Advance Plans and Policies in an Exceptional Way.

The Public Investment Must Be Strategic, Mitigate Risk, and Result in A Net Positive Fiscal Impact That Would Not Exist “But For” That Strategic Public Investment.
“Study and identify zoning and other tools to facilitate opportunities to reposition and redevelop Arlington’s aging regional shopping centers.”

- Arlington County Retail Plan
Legacy of Public-Private Partnerships at Ballston Mall

- **1986** – Public-Private Partnership to Transform Site from Parkington into an Urban Regional Mall
- **County Support of Above-Grade Parking Structure, Entitlement Support**
- **1999 & 2004**: Office and Retail Expansions Introduced Mixed-Use Element
- **2006**: Public-Private Partnership to Deliver Kettler Ice Plex
The Future of the BCM is Bleak

The anatomy of the regional retail center “death spiral”

Co-Tenancy Requirements Triggered

Repositioning Efforts Fail or Have Only Temporary Impacts

Shifts in Consumer Behavior

Lose Ground to Competition

Drops in Sales Volumes

Key/Anchor Retailers Close or Negatively Reposition

Vacancies & Substandard Retailers

The cost of inaction
Increased Regional Competition

The cost of inaction
Broader Fiscal and Economic Impacts

A Fiscal Base Under Threat

18.2% office vacancy rate
1.45M SF of vacant office space

-324,000 net office space absorption since 1Q09

32.2% office space listed as available

The cost of inaction
Development process on track:

- Soft demolition underway
- Forest City has secured financing
- Construction drawings at 100%
  - Guaranteed maximum price
- Pre-leasing activities going well (May 2016 ICSC)
The financial gap was determined utilizing an incremental return on costs model.

- Total Project Cost: $328M
- Financial Gap: up to $55M, per LOI

- Related public infrastructure projects
- Transformative nature of project
- Complicated construction techniques
## Investments to Make up the Redevelopment Gap

### Improvements & estimated costs generally consistent with LOI

<table>
<thead>
<tr>
<th>Investment in County-Owned Assets</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garage Improvements</td>
<td>$9.2M</td>
</tr>
<tr>
<td>Wilson Streetwork</td>
<td>$3.7M</td>
</tr>
<tr>
<td>Streetscapes</td>
<td>$1.8M</td>
</tr>
<tr>
<td>Pedestrian Bridge</td>
<td>$3.0M</td>
</tr>
</tbody>
</table>

### Publicly Accessible Improvements

<table>
<thead>
<tr>
<th>Improvement</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plaza/Mews</td>
<td>$6.2M</td>
</tr>
<tr>
<td>Circulations/Connections</td>
<td>$6.0M</td>
</tr>
</tbody>
</table>

### Buildings/Development

<table>
<thead>
<tr>
<th>Improvement</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vertical Improvements</td>
<td>$15.1M</td>
</tr>
<tr>
<td>Internal Circulation</td>
<td>$7.5M</td>
</tr>
</tbody>
</table>
## Plan of Finance Tools Consistent with LOI

| Direct Investment Garage | $3.5M |
| Direct Investment Transportation | $5.5M |
| Community Development Authority Bond | $44-45M |

### Public investments are strategic and benefit the public

- Par amount of bond issue will be closer to $60 million due to investor requirements on reserves & capitalized interest.
- Per the County Board approved TIF policy, no more than 40% of the total incremental taxes generated can be pledged.  
  - Includes use of parking garage revenues to reimburse for garage improvements financed with CDA bonds.
<table>
<thead>
<tr>
<th>County GO Bonds</th>
<th>CDA Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>• On County balance sheet &amp; obligation of General Fund</td>
<td>• Non-recourse to County; investors take full risk</td>
</tr>
<tr>
<td>• Typically 20 year term</td>
<td>• 25-30 year term</td>
</tr>
<tr>
<td>• No reserves</td>
<td>• Includes reserves</td>
</tr>
<tr>
<td>• Carry Aaa bond rating</td>
<td>• Unrated</td>
</tr>
<tr>
<td>• Lower interest rates</td>
<td>• Higher interest rates</td>
</tr>
</tbody>
</table>
Two Tranches of Bonds Proposed to Be Issued

<table>
<thead>
<tr>
<th>Senior Lien</th>
<th>Subordinate Lien</th>
</tr>
</thead>
<tbody>
<tr>
<td>• First pledge on incremental tax revenues</td>
<td>• Second pledge on incremental tax revenues</td>
</tr>
<tr>
<td>• Tax-exempt (lower interest rate)</td>
<td>• Taxable (higher interest rate)</td>
</tr>
<tr>
<td>• $32.1M in project costs</td>
<td>• $11.7M in project costs</td>
</tr>
<tr>
<td></td>
<td>• Includes backup special assessment from landowner</td>
</tr>
</tbody>
</table>

- Both include investor-required reserves & capitalized interest through project stabilization
- Both will have 30 year term
• CDAs are special development authorities authorized by state statute
  – Facilitate redevelopment projects & public-private partnerships
    • Ability to issue bonds if allowed by local government
    • Ability to impose special assessment or tax
    • Powers limited by local governing body
• CDA Board will be County Board (similar to Solid Waste Authority)
• CDAs widely used across the Commonwealth
  – Other triple-Aaa rated jurisdictions that have used include Fairfax, Stafford, Loudoun, Prince William and Henrico Counties
Examples of other PPP projects in VA

- Ballston Quarter: 17.5% of Total Project Costs
- Mosaic (Fairfax) w/o density: 10.9% of Total Project Costs
- Mosaic (Fairfax) w/density: 20.7% of Total Project Costs
- Short Pump (Henrico): 5.2% of Total Project Costs
- Reynold's Crossing (Henrico): 3.7% of Total Project Costs
- The Shops at White Oak (Henrico): 2.3% of Total Project Costs
- SW Waterfront (DC): 13.2% of Total Project Costs

Total Project Square Footage vs. Public Finance Dollars (Millions)
Projections are current estimates only for three pledged tax sources: Sales and Use, Meals and Real Property

Source: Municap; PFM; Arlington County
1. Adopt an ordinance to assume the power to consider petitions for the creation of community development authorities in Arlington County

2. Adopt an ordinance to create the Ballston Quarter Community Development Authority