

**I. Program Information**

County and State: Fairfax County, Virginia  
Program Title: Lorton Arts Foundation Project  
Program Category: Arts and Historic Preservation

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## **1. Abstract of the Program**

Fairfax County was faced with a significant challenge to preserve and adaptively reuse a historic property, the Lorton Correctional Complex, which was acquired from the federal government with numerous property development restrictions, maintenance and environmental mitigation liabilities. The Lorton Arts Foundation (LAF), a private non-profit, developed a vision for reuse of the Occoquan Workhouse portion of the site which is approximately 56 acres of the entire 2,434.13 acre site. LAF conducted extensive research and crafted a business plan for developing the site into a viable, self-supporting cultural arts center with residential/commercial components. The land use vision was supported by the County and the financial plan was considered workable. Specifically the plan calls for the development of the following uses on the property: artist studios, art gallery and exhibition space, prison museum, theater and performing arts studios multi-purpose events center, visitors and community heritage center, administrative offices, new construction of two upscale restaurants, artist colony providing approximately 40 units of housing, and indoor/outdoor performance center. These new developments will make the southern portion of the County a cultural destination for visitors from both within and outside the County. Increased tourism and revenue can be anticipated as a result of this development. Furthermore, the Bond Buyer, the daily newspaper of public finance published by SourceMedia, named this LAF financing deal the Southeast Region Small Issuer Deal of the Year for 2006.

## **2. The Problem/Need for the Program**

On July 15, 2002, Fairfax County finalized the acquisition of the Lorton Correctional Complex (renamed Laurel Hill) property consisting of 2,434.13 acres from the federal government. The agreement with the federal government restricted the type and intensity of development that could be attempted on the former prison property. In fact, most of the property was restricted to use as open space for passive recreational purposes with limited parcels set aside for mixed use, education and a small parcel available for development as a health care facility. In addition, numerous existing buildings qualified as historic structures and required preservation. The surrounding area had been somewhat rural in character until recently, with various industrial uses for a quarry, a water treatment plant, a trash incineration facility and a landfill. However, recent residential development began encroaching on this area, creating a simultaneous need for additional public facilities, as well as a strong desire to preserve open space and minimize the impact of existing industrial uses. The County faced a dual challenge of deciding how best to adaptively reuse this property consistent with the federal agreement and the desires of the expanding community.

As part of the prison property, a 55.69-acre site known as the Occoquan Workhouse with 25 buildings containing 233,813 square feet had been in operation from the early 20<sup>th</sup> century until December 2001 as a medium security prison. It was the intent of the Fairfax County Board of Supervisors to preserve this historic property, which at one time housed women suffragists, including Susan B. Anthony, who were arrested while marching on Washington seeking the right to vote in 1917. Both the architectural and historic significance of the Workhouse site created the opportunity for LAF to benefit from historic tax credit proceeds for the adaptive reuse of the facility.

The property also carried numerous maintenance and environmental liabilities that required significant County funds to stabilize deteriorating structures and mitigate

potentially harmful conditions. From FY 2000, through October 13, 2006, the County has expended \$15.6 million on the entire 2,434.13 acre site for a variety of needs including: asbestos mitigation, building demolition, security, structural maintenance, master planning, adaptive reuse initiatives, utilities, park field improvements, and staffing costs.

The long-term lease of the property is coupled with a special master contingent County lease that provides a reasonable guarantee of lease rental income to the LAF for specific square footage which could be used by the County if not rented by the intended tenant market. If the County is needed to “rent” space, the negotiated rate per square foot is below market and represents an excellent opportunity for the County to make use of new space in a growing part of the County. The guaranteed lease revenue income provided the key element of credit security to ensure LAF to obtain bond financing for the project. However, LAF is not resting on this guarantee and plans extensive fund-raising, as well as maintaining waiting lists for artists who wish to be studio tenants. The LAF needs only to rent approximately 74 percent of available space to achieve their financial goals, and if successful, the County would not be expected to rent any space or expend additional funds to support the LAF.

### **3. Description of the Program**

The former prison buildings were deteriorating and creating a future health, safety and financial liability for the County. The County had no specific reuse needs for the existing buildings, many of which were historic buildings requiring preservation. Furthermore, the transfer of the property from the federal government to the County in 2002 stipulated the future uses and limited the properties’ redevelopment potential to primarily recreational and cultural uses. In addition, the buildings are located on a major commuter route at a strategic entry to the County. Leaving these buildings unimproved creates an eyesore and leaves an unfavorable impression for visitors. After extensive research LAF crafted a business plan for development of the site that it should be a viable, self-supporting cultural arts center with residential/commercial components. The land use vision was supported by the County and the financial plan was considered workable. Specifically the plan calls for the development of the following uses on the property:

- Artist studios for the purpose of housing visual art, work and gallery studios and education workshops to be provided by means of converting certain existing buildings on the premises occupying approximately 50,800 square feet;
- Art gallery and exhibition space occupying approximately 19,220 square feet;
- Prison museum occupying approximately 18,760 square feet;
- Theater and performing arts studios created from a former assembly hall for lectures, theatrical productions, ceremonies and similar functions occupying approximately 18,580 square feet;
- Multi-purpose events center created from a building previously used as a prison cafeteria occupying approximately 27,010 square feet;
- Visitors and community heritage center occupying approximately 6,700 square feet;
- Administrative offices occupying approximately 3,560 square feet;
- New construction of two upscale restaurants occupying approximately 11,175 square feet;

- Artist colony providing approximately 40 units of housing occupying approximately 48,600 square feet; and
- Indoor/outdoor performance center occupying approximately 20,000 square feet.

The LAF's vision for future use of the site was widely endorsed by the community, artists and the Board of Supervisors as an appropriate land use for a property with numerous land use restrictions. The proposed LAF business plan envisioned financial self-sufficiency with limited start-up funding required from the County, \$1.0 million per year for five years for maintenance support which would be ultimately less than continuing to pay to maintain the deteriorating buildings in a status quo manner. Rental income, commercial and retail operations, special events as well as other fund raising, were anticipated to make operations ultimately self-supporting.

Making the deal work financially became the challenge. As LAF was a fledgling private, non-profit without an established donor base or current income, credit support was required to ensure the availability of financing to LAF for this project. In return for providing credit and start-up support, and a \$1.00 per year ground lease, the County is obtaining improvements to the property valued at over \$20.0 million, transfer of the maintenance liabilities for the existing buildings and ultimately gaining a cultural asset that improves the community and will attract visitors.

Wachovia Bank, as well as County staff, worked extensively with LAF to develop the financing package. In addition to the long-term ground lease of the property, the County and LAF negotiated an agreement whereby if necessary, the County would rent sufficient quantities of space to backstop the debt service on the construction loan should LAF be unable to rent, raise funds and generate sufficient other revenues to pay the yearly debt service on the construction loan. The County also agreed to contribute, on a matching basis, \$1.0 million per year for a five-year period to assist with maintenance/operating requirements. These are funds that the County estimates would have been required to support and mothball the facility if no alternative uses were found. By partnering with LAF, this liability is greatly diminished and the County gains a valuable asset. The Fairfax County Economic Development Authority assisted LAF in the issuance of \$26.2 million of tax-exempt revenue bonds, and through use of a synthetic fixed-rate swap recommended by Wachovia Bank, obtained a 4.75 percent interest rate as an all-in cost of funds in July 2006.

LAF, through Wachovia Bank, structured a tax-exempt, adjustable-mode Industrial Development Revenue Bond for \$26.2 million to fund renovation of the site and certain buildings. The financing was completed on July 27, 2006. The merits of this innovative deal were recognized by the Bond Buyer newspaper which proclaimed it the Southeast Region Small Issuer Deal of the Year for 2006.

The construction work has begun and the project is planned in multiple phases and includes the leasing of the existing buildings as artists' studios, a theater, an events center that will be available for special events and receptions, a prison museum, a gallery, a music barn with indoor and outdoor performance spaces, administrative spaces and two black box performance spaces. New construction on the site will include two restaurants and artist housing.

#### **4. Use of Technology**

This project benefited from the use of technology in that information and documents were shared via e-mail to speed up the review, negotiation and final agreement process. County staff, LAF staff and Wachovia staff were able to conduct a significant amount of planning and decision-making electronically such that the number of in-person meetings were reduced.

#### **5. The Cost of the Program**

Existing Fairfax County staff worked on this project so no additional County costs were required for the review and development of this project. LAF dedicated hundreds of volunteer hours and an estimated \$1.5 million in order to determine the project feasibility, as well as develop financial plans and construction plans.

The Fairfax County Board of Supervisors and representatives from numerous County agencies participated in the development, review and implementation of this project over a four-year time period. The County used existing staff, bond counsel and the County's financial advisor to assist in evaluation of the business case for the proposed project. Research of similar public/private arts centers throughout the United States was conducted to determine if the revenue projections for fund-raising, classes, special events and other income were realistic and attainable. Representatives from the County Attorney's Office, Department of Management and Budget, Facilities Management Department, and Office of the County Executive were involved in the development of the terms and conditions of the final lease and contingent lease documents.

LAF employed legal counsel, financial, real estate, tax credit, architectural and engineering experts to assist them in the development of their plans for the adaptive reuse of the Occoquan Workhouse. LAF developed its own five-year operating budget and revenue estimates with the help of outside consultants and knowledgeable members of its Board of Directors, which includes local developers. In support of those efforts, LAF commissioned two studies to help review, strengthen and make recommendations on specific, critical aspects of the revenue-generating activities. The first, completed in June 2004, was performed by Hammer Siler George Associates (HSG) and focused on the revenue and operations of the special events facility proposed in the LAF plan. The HSG study developed revenue and cost estimates based on methodology, assumptions and market supply analysis in comparison to similar facilities in the area and concluded that "the events facility will compete successfully with hotels, historic and other unique venues, catering venues, and venues with banquet facilities."

The second study was a revenue feasibility assessment completed in October 2004 by BrandSync on the LAF five-year operating budget projections for visual arts, fund raising and performing arts. BrandSync evaluated the revenue generation projections that LAF developed, strengthened the accuracy of the projections and developed recommendations on actions necessary to achieve the recommendations.

The improvements to the property are quite extensive and generally include: grading, landscaping, construction of parking lots, construction of pedestrian and vehicle access, utility work, storm water management, site lighting, and demolition of non-contributing

structures. Building renovations will generally include exterior restoration work including brick and mortar re-pointing, miscellaneous carpentry work to the exterior wood soffits and fascia boards, and replacement of windows and doors. Interior renovations will generally include upgrading plumbing, electrical and mechanical systems to support the intended uses and comply with current code requirements to create shell space ready for tenant improvements. The lease terms specify that all interior work will comply with the County's "Guidelines to Architects and Engineers" which establishes the minimum standard of quality for County buildings.

Included in the LAF capital plan is completion of proffered conditions related to storm water management and transportation access improvements to include new turn and stacking lanes on Lorton Road, frontage improvements on Lorton Road and Route 123, and internal traffic flow control features commensurate with the expected numbers of visitors to the events, studios and restaurants.

As of October 13, 2006, the County has expended \$15.6 million since FY 2000 on the entire 2,434.13 acre site for a variety of needs including: asbestos mitigation, building demolition, security, structural maintenance, master planning, adaptive reuse initiatives, utilities, park field improvements, and staffing costs. The improvements proposed by LAF will dramatically enhance the property value and limit the County's current maintenance cost. It is estimated that when the project is complete, the property will have a value of \$120.0 million.

Renovation and construction cost estimates were prepared by HITT Contracting Inc. and reviewed and verified by County staff. In addition LAF cost estimates for utilities and ongoing maintenance requirements were developed in consultation with Greenhorne & O'Mara Engineering Consultants, and reviewed and accepted by County facilities management staff. Staff proposed additional areas that would need to be undertaken by LAF in order to address issues not planned by the County such as window replacement, utility hook-up fees, planning for unsuitable soils, and a reassessment of soft costs. In addition, certain road improvements and storm water management requirements remain under negotiation. LAF and their consultants have agreed to investigate and modify the capital proposal to incorporate these items when the lease conditions are finalized. LAF believes that the items discussed to date can be accommodated within their financial plan.

The LAF engaged Wachovia Securities to create a plan for tax-exempt bond financing and structuring ideas. Wachovia further reviewed and modified the LAF revenue and cost estimates and created a preliminary financing plan based on the capital renewal and operations plans. Numerous meetings were held to resolve questions over the financial feasibility of the project and LAF's special expertise to accomplish the project. On January 30, 2006, the Board of Supervisors agreed to support the project and final details were ironed out to develop the ground lease and the contingent lease.

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## **6. The Results/Success of the Program**

Due to its success, this project won the Bond Buyer newspaper Southeast Region Small Issuer Deal of the Year for 2006. The project can be adapted to other financings where the possibility of a lease/revenue bond exists. The example of a contingent lease as done by Fairfax County also could be used by other governmental entities. By assuming a portion of the business and credit risk, the County strengthened the credit worthiness, allowing LAF to obtain a much lower cost of funds. Also, all governmental entities can make use of variable rate debt and lock in to a fixed rate via a variable to fixed rate swap.

Other government entities can benefit from the LAF project experience by focusing on the need to collaborate with private entities to seek alternative solutions to problems within the community. This public participation allows all levels of government to identify optimal solutions to land use and programmatic service delivery issues. In this case, the County was able to leverage existing sources of planned maintenance expenditures, as well as minimal credit participation through a contingent guaranteed use contract, in order to make possible the capital investment necessary to start the project.

Although the project appears to be complicated, it is just a creative way to guarantee or backstop the credit of a fledgling non-profit organization that has an excellent reuse vision for an historic property. LAF was originally just requesting a long-term lease. LAF Board members, Wachovia Bank, along with County staff, refined the project by adding the contingent lease concept to the financing plan to help enhance the credit worthiness of the project. This is an approach that is readily transferable to other development projects and perhaps is more common for typical office or research and development type structures as opposed to arts centers.

The training and technical skill required for employees to make use of this solution resulted from years of experience in government debt management and public finance. Wachovia staff members had years of experience dealing with various government entities, and County legal and debt management staff had previously made extensive use of lease financing structures for prior deals such as the Energy Resource and Recovery plant, South County Government Center, and Laurel Hill Golf Course. However, this is the first time that the County has agreed to a contingent lease in order to provide a threshold of basic debt service coverage for a public/private partnership projects.

As LAF was a fledgling private, non-profit without an established donor base or current income, credit support was required to ensure the availability of financing to LAF for this project. In return for providing credit and start-up support, and a \$1.00 per year ground lease, the County is obtaining improvements to the property valued at over \$20.0 million, transfer of the maintenance liabilities for the existing buildings and ultimately gaining a cultural asset that improves the community and will attract visitors and tourists.

## **7. Worthiness of an Award**

This project is worthy of an award for several reasons. First, this development will provide new cultural facilities to a growing part of the County that has not had such access. The Lorton area is in the southern portion of the County within a short driving

distance to Mt. Vernon, Woodlawn and Gunston Plantations. The new national museum is being planned for Ft. Belvoir, which is also in this area of the County. Also, it is anticipated that with the Base Relocation and Closure (BRAC) recommendations for Ft. Belvoir, an additional 18,000 to 22,000 new jobs will be relocated to Ft. Belvoir. These new developments will make the southern portion of the County even more of a cultural destination for visitors from both within and outside the County. Increased tourism and revenue can also be anticipated as a result of this development.

Second, this is the first time Fairfax County has provided a contingent lease to help backstop the financing for a non-profit entity. The project was somewhat unique in that LAF proposed to develop a deteriorating County property that was a liability and turn the property into a cultural asset. This type of project, a cultural arts center is one that other governments have sponsored via direct support or indirect support. The Torpedo Factory in Alexandria, Virginia is a similar venue to that being proposed by the LAF. Although no art centers in the United States are near the size and scope of LAF's, other art centers were surveyed throughout the country including: Massachusetts Museum of Contemporary Art in North Adams, Massachusetts; Indianapolis Art Center in Indianapolis, Indiana; McGuffey Arts Center in Charlottesville, Virginia; Montpelier Arts Center in Laurel, Maryland; and Artspace Visual Art Center in Raleigh, North Carolina. All of these arts centers received various levels of government start-up funding and ongoing government support. Unlike most of the examples cited, the LAF business plan anticipates that annual County support will not be necessary after five years and the contingent lease expires after 10 years, meaning that the LAF will be entirely self-sufficient.

Third, this project demonstrates that in appropriate instances, government entities should consider making use of lease-revenue bonds in lieu of general obligation bonds or pay-as-you-go financing. Development of a dedicated revenue stream for payment of the debt service on the bonds helps the project become self-sufficient and can assist with general obligation bond capacity issues. Finally, the County exercised a basic strategy for encouraging and guiding alternative land uses and economic development in an under-developed and primarily industrial use area of the County.

In addition as previously noted, this project won the Bond Buyer newspaper 2006 Southeast Region Small Issuer Deal of the Year. The LAF project demonstrates what can be accomplished through effective public/private collaboration. The project is important as it demonstrates how public/private collaboration brought about a winning situation for LAF, the County, the artist community and the citizens who will ultimately visit and use the facility. A property that was a maintenance and financial burden for the County is being turned into a valuable cultural asset.