

July 18, 2011

TOWN OF HERNDON

Enriching the Quality of Life and Promoting a Sense of Community



MEMORANDUM

To: Chairman East and Members of the Planning Commission

From: Elizabeth M. Gilleran, Director of Community Development

Date: July 13, 2011

Subject: Metrorail Station Area Plan

WAG for EMG

At the work session of July 18, 2011, the Planning Commission will receive the third of four presentations about a development scenario in the Herndon Metrorail station area. In the third presentation, fiscal impact analysis is based on the same scenario reviewed at the special work session on June 13, 2011, when a presentation (iteration #1) was made about the financial feasibility of hypothetical development. The first presentation (baseline feasibility) about the economic study was made at a special work session on May 2, 2011. The final and fourth presentation will be made at a special work session on August 22, 2011 and acceptable fiscal impact is hoped to be established at that time. The Planning Commission will be asked on August 22 to select the elements desired for a "final" area plan that will then be prepared by the consultants for a formal public hearing process in October, November, and December 2011.

Attached are the consultant's findings for fiscal impact based on the instructions provided by the staff and the Planning Commission after the special work session in June. The financial consultants are scheduled to be at the work session on July 18, 2011, and make the presentation.

To summarize, the consultants have established a positive fiscal impact for both hypothetical development in 2035, and for no change in existing conditions by 2035 (except for build-out of the Fairbrook property). While it is likely that properties north of Herndon Parkway in the study area will not redevelop by 2035 at the hypothetical densities tested, the fiscal impact is still positive. However, the absence of those properties in a hypothetical redevelopment program would present great challenges to the town in terms of urban design: what the transit orient development will mean for Herndon and what kind of "place" is being created at the metro station.

The Planning Commission will have an opportunity to adjust assumptions and test one more scenario related to fiscal impact after July 18, 2011. The staff requests that all Planning Commission comments on the fiscal impact study be submitted to staff by 8:00 a.m. on Thursday, July 21, 2011, in order for the consultant to begin working on the final step of the economic study.

Metrorail Station Area Plan
July 13, 2011
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Attachments:

1. BBP memorandum
2. Herndon Metrorail Station Area Plan, Anticipated Meeting Schedule: March – December 2011, May 2, 2011



 Public/Private Development Advisors

Memorandum

To: Kay Robertson and Lisa Gilleran, Town of Herndon, VA
Geoffrey Morrison Logan, VHB

From: Ralph Basile, BBP
Kate Bolinger, BBP
Taylor Yewell, BBP

Re: Herndon-Monroe Station Financial and Fiscal Impact Analysis: Task #4 – Fiscal Impact
Analysis: Comparison of Area Plan 3b with Comprehensive Plan

Date: July 13, 2011

OVERVIEW AND KEY FINDINGS

Objective

BBP LLC was engaged by the Town of Herndon, VA to conduct an economic analysis of the proposed increases in zoning density at the Herndon-Monroe Metrorail Station area. This memorandum serves to present the findings of a baseline fiscal impact analysis that compares public expenditures and public revenues based on two scenarios:

- Herndon Station Area (Area Plan 3b) Scenario – potential development program for the study area based on transit oriented development planning, represented in Area Plan 3b as identified by the Town of Herndon on June 20, 2011
- Comprehensive Plan Scenario – potential development program for the study area as based on the 2008 Comprehensive Plan

The goal of this baseline study is to determine whether public expenditures exceed public revenues under Area Plan 3b, and to understand how Area Plan 3b's fiscal impacts compare to the Comprehensive Plan scenario. For both scenarios, projected revenues and expenditures are presented in 2011 dollars (i.e. not adjusted for inflation). New transit oriented development brings with it new property tax and other forms of tax revenues for the Town, but also new public service needs and public infrastructure costs.

Summary Comparison of Scenarios

The two scenarios tested relate to Area Plan 3b and the 2008 Comprehensive Plan. For these two scenarios, the Town of Herndon identified a development forecast, where appropriate, for the following mix of uses: office, hotel, retail, and residential. Development forecasts for 2025 (Phase I), 2035 (Phase II), and beyond 2035 were identified by the Town. For the purposes of this study, BBP LLC has quantified fiscal impacts for development forecasts for Phases I and II, but not for development beyond 2035.

Exhibit 1 below summarizes the development forecast for the Herndon-Monroe Station Area (Area Plan 3b); the forecast includes development beyond 2035 for reference, though fiscal modeling has not been conducted with development beyond 2035.

Exhibit 1

Development Forecast for Herndon Station Area (Area Plan 3b)					
Property Type	Phase I - by 2025	Phase II - by 2035	Phases I & II - Cumulative by 2035	Beyond 2035	Cumulative To 2035 and Beyond
Commercial					
Office	2,894,396	3,640,275	6,534,671	511,978	7,046,649
Hotel	356,233	456,971	813,204	38,640	851,844
Retail	133,588	232,358	365,946	57,960	423,906
Subtotal, Commercial	3,384,217	4,329,604	7,713,821	608,578	8,322,399
Residential	1,068,700	3,415,663	4,484,363	1,323,414	5,807,777

Source: Town of Herndon; BBP LLC 2010

Exhibit 2 provides a summary of the fiscal impacts associated with development under the Area Plan 3b scenario by phase.

Exhibit 2

Summary of Annually Recurring Fiscal Impacts to Town of Herndon - 2011 \$ Herndon Station Area (Area Plan 3b)		
Revenues	Phase I	Phases I & II
Real Estate Tax Revenues	\$3,025,942	\$7,979,090
BPOL Tax Revenues	\$1,759,927	\$4,053,796
Transient Occupancy Tax Revenues	\$1,276,880	\$3,071,913
Utility Tax Revenues	\$257,205	\$678,223
Meals Tax Revenues	\$280,535	\$280,535
Total Tax Revenues	\$6,600,488	\$16,063,557
Theoretical Costs of Services ¹	Phase I	Phases I & II
General Government	\$135,040	\$355,155
Public Safety*	\$1,444,145	\$3,782,439
Public Works	\$372,606	\$977,865
Health and Welfare*	\$44,262	\$115,782
Recreation and Culture*	\$44,262	\$115,782
Total Theoretical Costs of Services	\$2,040,315	\$5,347,023
Surplus/(Deficit)	\$4,560,173	\$10,716,533

Source: BBP LLC 2011

Key finding: under Area Plan 3b public expenditures are covered by public revenues, resulting in a surplus of over \$4.5 million in Phase I, and \$10.7 million cumulatively over the two phases.

¹ In terms of costs, for the Town of Herndon public safety includes police; health and welfare includes community development, and recreation and culture includes parks and recreation.

Exhibit 3 below summarizes the development forecast for the study area under the Comprehensive Plan scenario. As shown in the table, the Comprehensive Plan scenario represents the retention of existing uses along with infill development of office and hotel uses at the Fairbrook Property. The infill development program assumed for the Fairbrook Property includes 1 million square feet, including: 100,000 square feet of hotel and 900,000 square feet of office (including replacement of 80,000 square feet of office) per the Town. The timing of development for the Fairbrook Property assumes 60% in Phase I and 40% in Phase II per the Town.

Exhibit 3

Development Forecast for Herndon Station Area (Comprehensive Plan)					
Property Type	Existing	Phase I - by 2025	Cumulative by 2025	Phase II - by 2035	Phases I & II - Cumulative by 2035
Commercial					
Office	1,595,473	420,000	2,015,473	400,000	2,415,473
Hotel	75,280	100,000	175,280	0	175,280
Subtotal, Commercial	1,670,753	520,000	2,190,753	400,000	2,590,753

Source: Town of Herndon; BBP LLC 2010

Exhibit 4 summarizes fiscal impacts of development under the Comprehensive Plan scenario by phase. All impacts are cumulative in that they include development from the prior phase. Both include existing development impacts as well. Under the Comprehensive Plan scenario, public expenditures are covered by public revenues such that a surplus of over \$800,000 results in Phase I, growing to over \$990,000 cumulatively in Phases I and II.

Exhibit 4

Summary of Annually Recurring Fiscal Impacts to Town of Herndon - Comprehensive Plan Build Out - 2011 \$		
Revenues	Phase I	Phases I & II
Real Estate Tax Revenues	\$689,457	\$882,622
BPOL Tax Revenues	\$468,831	\$600,183
Transient Occupancy Tax Revenues	\$462,638	\$462,638
Utility Tax Revenues	\$58,604	\$75,023
Total Tax Revenues	\$1,679,530	\$2,020,466
Theoretical Costs of Services	Phase I	Phases I & II
General Government	\$67,181	\$80,819
Public Safety	\$587,835	\$707,163
Public Works	\$167,953	\$202,047
Health and Welfare	\$16,795	\$20,205
Recreation and Culture	\$16,795	\$20,205
Total Theoretical Costs of Services	\$856,560	\$1,030,437
Surplus/(Deficit)	\$822,970	\$990,028

Source: BBP LLC 2011

The costs and revenues illustrated above for the Comprehensive Plan scenario include those estimated to be associated with existing development based upon existing assessed values. Therefore, much of the estimated costs and revenues identified in the table above are already being collected by the Town.

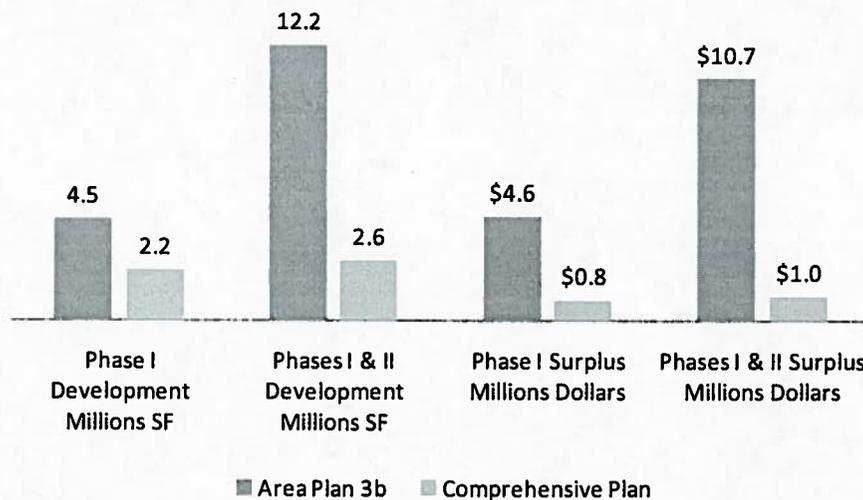
The fiscal impacts of Area Plan 3b and the Comprehensive Plan scenarios compare and contrast in the following ways:

- Area Plan 3b represents **2 times** more development in Phase I than under the Comprehensive Plan scenario
- Area Plan 3b results in **5.5 times** more surplus revenues in Phase I than under the Comprehensive Plan scenario
- Area Plan 3b represents over **4.5 times** more development cumulatively in Phases I and II than under the Comprehensive Plan scenario
- Area Plan 3b results in over **10 times** more surplus revenues cumulatively in Phases I and II than under the Comprehensive Plan scenario

Development and surplus revenues for Area Plan 3b and the Comprehensive Plan scenarios are presented side-by-side in Exhibit 5 below.

Exhibit 5

Development and Surplus Revenues Compared by Scenario



It should be noted that while the development program identified for Area Plan 3b is reasonable from a transit oriented development perspective (in terms of density and mix of uses), the program should not be interpreted as a precise projection of future development. The actual development that is constructed in the study area will differ, with different associated public expenditures and revenues. The Comprehensive Plan scenario’s fiscal impacts also could differ in that the infill development of the Fairbrook Property could be different than that assumed for purposes of this analysis.

More detailed description of fiscal and economic impacts associated with Area Plan 3b are presented in the remainder of this memorandum to describe the method used to calculate various impacts. For the sake of brevity, and given the focus of this analysis on Area Plan 3b, detailed description of the Comprehensive Plan scenario is not presented as impacts were calculated using same methods (with the exception of property valuation, which was based on existing assessed values for existing uses).

Special Note Regarding Financial Feasibility

BBP LLC evaluated the financial feasibility of Area Plan 3b in prior work (Task #3 – Financial Analysis Iteration #1), and the results of that analysis are provided in a memorandum dated June 7, 2011. BBP LLC found that of 14 properties, four properties showed redevelopment would not be feasible under the proposed FARs and based on the assumptions described in that memorandum. For the purposes of this analysis, BBP LLC has calculated the fiscal impacts associated with those properties redeveloping such that the summary results presented above include these properties' impacts.

For reference, when these four properties are removed from the fiscal impact analysis, a surplus of \$4.3 million remains in Phase I (compared to \$4.5 million when they are included), and a cumulative surplus of \$9.9 million in Phases I and II (compared to \$10.7 million when they are included). In other words, these properties contributed 6% of the surplus tax revenues generated in Phase I, and 8% of the surplus tax revenues generated in Phases I and II.

AREA PLAN 3B FISCAL AND ECONOMIC IMPACTS TO TOWN OF HERNDON

Calculation of Real Estate Tax Revenues

Office, retail and hotel assessments are derived from the *replacement value* of the property improvements plus land, which equals total development costs minus demolition costs.

Residential assessments are calculated using the *replacement value* as the basis, plus an additional 20 percent to more accurately approximate *market value*.

Town of Herndon real estate tax is calculated at the 2011 rate of \$0.2650 per \$100 of assessed value. The net new tax assessment is shown for comparison purposes. The table presents impacts by each of the two phases and in total for Area Plan 3b.

Exhibit 6

Calculation of Real Estate Tax Revenues - 2011 \$			
	Phase I	Phase II	Phases I & II
Office Assessment	\$766,910,430	\$1,289,246,446	\$2,056,156,876
Retail Assessment	\$37,108,569	\$62,382,893	\$99,491,462
Hotel Assessment	\$73,650,000	\$102,600,000	\$176,250,000
Total Commercial Assessment	\$877,668,999	\$1,454,229,339	\$2,331,898,337
Residential Assessment	\$264,195,890	\$414,883,139	\$679,079,029
Total	\$1,141,864,888	\$1,869,112,478	\$3,010,977,366
Current Assessment	\$80,393,290	\$118,436,010	\$198,829,300
Net New Assessment	\$1,061,471,598	\$1,750,676,468	\$2,812,148,066
Herndon Real Estate Tax	\$3,025,942	\$4,953,148	\$7,979,090

Source: Town of Herndon; BBP LLC 2011

Calculation of Other Tax Revenues to the Town of Herndon

Annual Transient Occupancy Tax Revenues are calculated based on projected room revenues at a 6% tax rate, and represent the second largest source of fiscal revenues from the proposed development concept for the Area Plan 3b scenario for the Herndon Station Area.

Exhibit 7

Calculation of Transient Occupancy Tax Revenues to Town of Herndon						
Period	Rooms	Occ. Rate	Days in Year	Average Daily Rate	Room Revenue	Annual Tax @ 6%
Phase I	690	65%	365	\$130	\$21,281,325	\$1,276,880
Phase II	970	65%	365	\$130	\$29,917,225	\$1,795,034
Phases I & II						\$3,071,913

Source: Smith Travel Service, Host Highlights 2010; Town of Herndon; BBP LLC 2011

Annual Meals Tax Revenues are calculated based on future estimated restaurant space and estimated annual food and beverage sales. Based on consultation with the Town, BBP LLC has assumed that 30% of retail development under the Area Plan 3b scenario will be restaurant space. BBP LLC has assumed sales per square foot of \$280, as based on data provided by the Urban Land Institute.

Exhibit 8

Calculation of Meals Tax Revenues to Town of Herndon				
Period	Restaurant SF @ 30% of Retail	Est. Sales per SF*	Est. Annual F&B Sales	Annual Tax @ 2.5%
Phase I	40,076	\$280	\$11,221,392	\$280,535
Phase II	69,707	\$280	\$19,518,072	\$487,952
Phases I & II				\$768,487

Source: ULI Dollars and Cents of Shopping Centers 2008; BBP LLC 2011

Business, professional and occupational taxes have been calculated as based on estimated annual sales by use category, and then multiplied by the current tax rate by use.

Exhibit 9

Calculation of Business, Professional and Occupational License Taxes					
Phase I	Square Feet	Est. Sales per SF*	Est. Ann. Sales	Rate per \$100*	Total Annual Tax
General Retail	66,794	\$150	\$10,019,100	\$0.13	\$12,895
Restaurant	40,076	\$280	\$11,221,392	\$0.13	\$14,458
Personal Services	26,718	\$195	\$5,209,932	\$0.21	\$10,731
Hotels/Motels	356,233		\$21,281,325	\$0.26	\$55,071
Professional	2,604,956	\$160	\$416,793,024	\$0.40	\$1,666,772
Federal R&D	289,440	\$160	\$46,310,336	\$0.05	\$23,105
Total					\$1,759,927
Phases I & II					
General Retail	182,973	\$150	\$27,445,950	\$0.13	\$35,550
Restaurant	109,784	\$280	\$30,739,464	\$0.13	\$39,831
Personal Services	73,189	\$195	\$14,271,894	\$0.21	\$29,761
Hotels/Motels	813,204		\$51,198,550	\$0.26	\$132,856
Professional	5,881,204	\$160	\$940,992,624	\$0.40	\$3,763,570
Federal R&D	653,467	\$160	\$104,554,736	\$0.05	\$52,227
Total					\$4,053,796

*Rate per \$100 of gross receipts above the \$100,000 threshold

Source: Town of Herndon; BBP LLC 2011

Cost of Government Services

For the purposes of this analysis, government services are divided into five functional areas, based on methodology contained in A Practitioners Guide to Fiscal Impact by Robert Burchell and David Listokin of Rutgers University, a widely recognized reference source in the realm of fiscal analysis. The five functional areas are: general government, public safety, public works, health and welfare, and recreation and culture. Essentially, Burchell and Listokin's industry-standard methodology calculates cost of services in relation to real property taxes.

BBP LLC used the Burchell and Listokin method to estimate theoretical cost of services to the Town of Herndon, as based on calculated real property tax revenues. Costs of services are estimated using a range of percentages of property taxes paid by the households and commercial property owners within a given area. Burchell and Listokin derived these percentages from survey of communities across the nation. For example, the percent range for general government is 4% to 6%. The broadest range of percentages (35 to 90) falls under the public safety category, for which residents generate much higher levels of government services than non-residential use.

Since the Burchell and Listokin method relates cost of services to real property taxes, and real property tax revenues are based on rates that are based upon cost of services, the costs that are estimated by this method are limited to those services provided by the Town. For example, the public safety service category in the Town of Herndon is limited to police, as Fairfax County provides fire and rescue services.

The Burchell and Listokin method allows for the differentiation of costs generated by residential use as compared to non-residential use. This method is an alternative to estimating costs based on the Town of Herndon budget, which does not differentiate between residential and non-residential uses in cost generation. Statistically, residential land uses require higher levels of government services than non-residential use, mostly by virtue of the burden imposed on public schools by children of residents. Resident populations also require higher levels of other services due to their continuous presence within a taxing jurisdiction. For that reason, residential and non-residential costs of services are calculated separately.

The costs presented in Exhibits 10 through 13 are based upon the Burchell and Listokin method and are not based on the Town of Herndon budget.

The high end of the range of percentages of each service category is therefore applied to tax revenues generated from residential development to estimate costs. Based on Town of Herndon annual real estate taxes of \$700,119 generated from residential development built out in Phase I, we estimate total costs of services to equal approximately \$854,145.

Exhibit 10

Estimated Theoretical Cost of Town of Herndon Government Services Phase I – Residential				
Service Category	Real Estate Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$700,119	4 to 6	6%	\$42,007
Public Safety		35 to 90	90%	\$630,107
Public Works		10 to 20	20%	\$140,024
Health and Welfare		1 to 3	3%	\$21,004
Recreation and Culture		1 to 3	3%	\$21,004
Total				\$854,145

Source: Burchell & Listokin, A Practitioner's Guide to Fiscal Impact; BBP LLC 2011

Non-residential costs are estimated at the lower end of the range for each service category. Based on Town of Herndon annual real estate taxes of approximately \$2.3 million generated from non-residential development built out in Phase I, we estimate total costs of services to equal approximately \$1.2 million.

Exhibit 11

Estimated Theoretical Cost of Town of Herndon Government Services Phase I - Commercial				
Service Category	Real Estate Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$2,325,823	4 to 6	4%	\$93,033
Public Safety		35 to 90	35%	\$814,038
Public Works		10 to 20	10%	\$232,582
Health and Welfare		1 to 3	1%	\$23,258
Recreation and Culture		1 to 3	1%	\$23,258
Total				\$1,186,170

Source: Burchell & Listokin, A Practitioner's Guide to Fiscal Impact; BBP LLC 2011

Exhibits 12 and 13 show estimated costs for services on completion of Phases I and II and total projected build-out for residential and non-residential, respectively.

Exhibit 12

Estimated Theoretical Cost of Town of Herndon Government Services Phases I & II - Residential				
Service Category	Real Estate Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$1,799,559	4 to 6	6%	\$107,974
Public Safety		35 to 90	90%	\$1,619,603
Public Works		10 to 20	20%	\$359,912
Health and Welfare		1 to 3	3%	\$53,987
Recreation and Culture		1 to 3	3%	\$53,987
Total				

Source: Burchell & Listokin, A Practitioner's Guide to Fiscal Impact; BBP LLC 2011

Exhibit 13

Estimated Theoretical Cost of Town of Herndon Government Services Phases I & II - Commercial				
Service Category	Real Estate Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$6,179,531	4 to 6	4%	\$247,181
Public Safety		35 to 90	35%	\$2,162,836
Public Works		10 to 20	10%	\$617,953
Health and Welfare		1 to 3	1%	\$61,795
Recreation and Culture		1 to 3	1%	\$61,795
Total				

Source: Burchell & Listokin, A Practitioner's Guide to Fiscal Impact; BBP LLC 2011

Calculation of Non-Recurring Revenues

The Town of Herndon assesses fees to developers at various intervals during the development process. Fees are based on the development costs associated with the land area, the building footprint and the gross floor area of property improvements. Calculations of fees are based on the conceptual development programs for each phase, and mean planning fees estimated by the Town of Herndon based on similar projects. Non-recurring land development fees are estimated to equal approximately \$639,160 for Phase I development and \$1.3 million for Phase II development.

Building permit and inspection fees are based on gross floor area, and reflect a fee of \$0.2488 per square foot of Type I(A) and I(B) buildings, which will comprise most, if not all, of the buildings likely to be constructed in the Herndon Station area. Non-recurring building permit and inspection fees are estimated to equal approximately \$2.0 million for Phase I development and \$3.8 million for Phase II development.

Exhibit 14

Development Fees to the Town of Herndon			
	Phase I	Phase II	Phases I & II
Land Development Fees	\$639,160	\$1,265,374	\$1,904,534
Building and Inspection Fees	\$1,984,403	\$3,792,049	\$5,776,452

Source: Town of Herndon; BBP LLC 2011

Future development will bring with it the potential for the Town of Herndon to collect developer proffers. To estimate future proffers, BBP LLC has assumed future proffers will be the same as the residual equity calculated for Area Plan 3b under the Financial Iteration #1 analysis. Explanation of the calculation of residual equity is provided in BBP LLC’s memorandum regarding Financial Analysis Iteration #1, dated June 7, 2011.

Financial Iteration #1 found nearly \$37 million in residual equity for Phase I, and \$49 million in residual equity for Phase II for a cumulative \$86 million in residual equity from Phases I and II. Therefore, a cumulative \$86 million in potential proffers could accompany future development.

The potential combined \$86 million in residual equity from Phases I and II could fully address the nearly \$80 million in infrastructure costs estimated to be generated by the development. Residual equity compared to infrastructure costs by phase is presented in Exhibit 15.

Exhibit 15

Residual Equity and Infrastructure Costs			
	Phase I	Phase II	Phases I & II
Residual Equity	\$36,978,032	\$49,105,945	\$86,083,977
Infrastructure Costs	\$35,083,029	\$44,660,411	\$79,743,440
Percent of Costs Covered	105%	110%	108%

The infrastructure costs represented in Exhibit 15 are based upon evaluation conducted by VHB and the Town of Herndon. The infrastructure costs above are based upon the development program identified for Area Plan 3b. However, as a point of information the Planning Commission requested information about

the potential infrastructure impacts associated with increasing the density in one part of the plan² (specifically, increasing the area identified as a 3.5 FAR maximum immediately north of Herndon Parkway to a 4.5 FAR maximum).

The Town's water and sewer model indicates that the lines can accommodate the extra development, but there would be other expenses for purchase of water supply and sewer treatment. This includes the purchase of 1.5 MGD water capacity with the increase to 4.5 FAR from Fairfax Water for an estimated \$6.8 million, representing an approximately \$900,000 increase compared to the purchase of 1.3 MGD water capacity under the 3.5 FAR for an estimated \$5.9 million. The increased expenses also include the purchase of 0.9 MGD sewer for an estimated \$7.3 million, representing an approximately \$400,000 increase compared to the purchase of 0.85 MGD for \$6.9 million.

In contrast to the infrastructure costs presented for Area Plan 3b above, the build out scenario under the Comprehensive Plan would result in \$5.1 million in infrastructure costs. Whereas potential proffers were estimated for Area Plan 3b as a result of prior financial modeling, no financial modeling was tasked for the Comprehensive Plan scenario. However, the approximately \$990,000 in estimated surplus tax revenues generated by the Comprehensive Plan scenario could potentially pay the debt service on bonds issued for infrastructure development, described in greater detail below.

Potential for Surplus Tax Revenues to Support Bonds for Infrastructure

Surplus tax revenues could potentially pay the debt service on bonds issued for infrastructure development. For example, under Area Plan 3b, using a 20-year bond at a 4.5% interest rate and a debt service coverage ratio of 2:1, \$4.6 million in surplus taxes could service the debt on \$29.7 million in principal, and \$10.7 million in surplus taxes could service the debt on \$69.6 million in principal (representing 87% of the \$79.7 million in cumulative infrastructure costs from Phases I and II).

Under the Comprehensive Plan build out scenario, if surplus taxes were applied to debt service on infrastructure costs, and using a 20-year bond at a 4.5% interest rate and a debt service coverage ratio of 2:1, \$822,970 in surplus taxes could service the debt on \$5.3 million in principal, and \$990,028 in surplus taxes could service the debt on \$6.4 million in principal (representing 125% of the \$5.1 million in cumulative infrastructure costs from Phases I and II).

² In other words, the Planning Commission wanted to study the 3.5 FAR along the north side of the Herndon Parkway, but also wanted to know, for study purposes, if it would be cost efficient to install water and sewer capacity in the near future such that the Town could later decide to allow a 4.5 FAR in the area.

Projected Employment Impacts

The addition of new commercial space on the north side of the Herndon-Monroe Metrorail station area will not in and of itself create employment, but is certainly necessary to support new employment as existing space is absorbed. BBP LLC has projected employment that could be supported in future space. For comparison purposes, employment supported under the Comprehensive Plan scenario (including existing space) is also documented.

These employment levels are shown in exhibits 16 and 17 on the following page, and are based on the following assumptions about employment density:

- Office: 3 employees per 1,000 SF. Source: CoStar
- Retail: 2.5 employees per 1,000 SF. Source: Urban Land Institute
- Hotel: 1.5 employees per 1,000 SF. Source: PricewaterhouseCoopers

Exhibit 16

Direct Employment Impacts Area Plan 3b			
Property Type	Phase I	Phase II	Phases I & II
Commercial			
Office	8,683	10,921	19,604
Hotel	534	685	1,220
Retail	334	581	915
Total	9,552	12,187	21,739

Source: Urban Land Institute, CoStar,
PricewaterhouseCoopers; BBP LLC 2010

Exhibit 17

Direct Employment Impacts Comprehensive Plan				
Property Type	Existing	Phase I	Phase II	Phases I & II
Commercial				
Office	4,786	1,260	1,200	7,246
Hotel	113	150	0	263
Total	4,899	1,410	1,200	7,509

Source: Urban Land Institute, CoStar, PricewaterhouseCoopers;
BBP LLC 2010

AREA PLAN 3B FISCAL IMPACTS TO FAIRFAX COUNTY

Summary

In addition to quantifying impacts of Area Plan 3b to the Town of Herndon, BBP LLC quantified fiscal impacts to Fairfax County for informational purposes. As illustrated in Exhibit 18, development under Area Plan 3b results in an estimated surplus of nearly \$16 million to Fairfax County in Phase I, and over \$42 million cumulatively in Phases I and II.

Exhibit 18

Summary of Annually Recurring Fiscal Impacts to Fairfax County - 2011 \$		
Revenues	Phase I	Phases I & II
Real Estate Tax Revenues	\$15,026,942	\$39,624,462
Personal Property Tax Revenues	\$2,178,907	\$5,745,547
Transient Occupancy Tax Revenues	\$425,627	\$1,023,971
Total Tax Revenues	\$17,631,475	\$46,393,980
Theoretical Costs of Services	Phase I	Phases I & II
Public Schools	\$874,822	\$4,773,324
General Government	\$188,002	\$322,155
Public Safety	\$1,096,677	\$2,818,857
Public Works	\$313,336	\$805,388
Health and Welfare	\$31,334	\$80,539
Recreation and Culture	\$31,334	\$80,539
Total Theoretical Costs of Services	\$1,660,683	\$4,107,477
Surplus/(Deficit)	\$15,970,792	\$42,286,503

Source: BBP LLC 2011

The methods used to calculate fiscal impacts to Fairfax County are presented on the following pages.

Calculation of Real Estate Tax Revenues

Fairfax County real estate tax is calculated at the 2011 base rate of \$1.07 per \$100 of assessed value, plus the following add-on rates: commercial transportation tax, \$0.11; Dulles Rail West Phase II, \$0.10; Stormwater Service District, \$0.015; integrated Pest management program, \$0.001. Additional information related to the Dulles Rail West Phase II Transportation Improvement District is provided in Attachment 1, "Fund 122: Dulles Rail Phase II Transportation Improvement District."

Exhibit 19

Calculation of Real Estate Tax Revenues - 2011 \$			
	Phase I	Phase II	Phases I & II
Office Assessment	\$766,910,430	\$1,289,246,446	\$2,056,156,876
Retail Assessment	\$37,108,569	\$62,382,893	\$99,491,462
Hotel Assessment	\$73,650,000	\$102,600,000	\$176,250,000
Total Commercial Assessment	\$877,668,999	\$1,454,229,339	\$2,331,898,337
Residential Assessment	\$264,195,890	\$414,883,139	\$679,079,029
Total	\$1,141,864,888	\$1,869,112,478	\$3,010,977,366
Current Assessment	\$80,393,290	\$118,436,010	\$198,829,300
Net New Assessment	\$1,061,471,598	\$1,750,676,468	\$2,812,148,066
Fairfax Co. Real Estate Tax	\$15,026,942	\$24,597,520	\$39,624,462

Source: Town of Herndon; BBP LLC 2011

Calculation of Other Tax Revenues to Fairfax County

Fairfax County will also collect annual **transient occupancy tax revenues** of 2% of room revenues from lodging properties within the Herndon Station Area totaling approximately \$425,627 at completion of Phase I in 2025, increasing to \$1.0 million at completion of Phase II in 2035.

Cost of Government Services

BBP LLC used the same method to estimate the cost of government services to Fairfax County as that used for the Town of Herndon, as based on Burchell and Listokin's A Practitioners Guide to Fiscal Impact, with the exception of the calculation of public school costs. These costs were estimated using assumptions provided by FCPS, and are presented following the summary of cost of services. Costs are presented by phase in the following tables.

Exhibit 20

Estimated Cost of Fairfax County Public Schools Services Phase I - Residential				
Service Category	County Property Taxes	Pupil Generation	Cost Per Pupil*	Estimated Cost of Services
Public Schools	\$3,423,979	69	\$12,597	\$874,822
Total	\$3,423,979			\$874,822

Estimated Theoretical Cost of County Government Services Phase I - Residential				
Service Category	County Property Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$3,423,979	4 to 6	6%	\$205,439
Public Safety		35 to 90	35%	\$1,198,393
Public Works		10 to 20	10%	\$342,398
Health and Welfare		1 to 3	1%	\$34,240
Recreation and Culture		1 to 3	1%	\$34,240
Total				\$1,814,709

Source: Burchell & Listokin, *A Practitioner's Guide to Fiscal Impact*; FCPS, BBP LLC 2011

*Cost per pupil provided by Fairfax County Public Schools

Exhibit 21

Estimated Theoretical Cost of County Government Services Phase I - Commercial				
Service Category	County Property Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$11,374,590	4 to 6	4%	\$454,984
Public Safety		35 to 90	35%	\$3,981,107
Public Works		10 to 20	10%	\$1,137,459
Health and Welfare		1 to 3	1%	\$113,746
Recreation and Culture		1 to 3	1%	\$113,746
Total				\$5,801,041

Source: Burchell & Listokin, *A Practitioner's Guide to Fiscal Impact*; BBP LLC 2011

Exhibit 22

Estimated Cost of Fairfax County Public Schools Services Phases I & II - Residential				
Service Category	County Property Taxes	Pupil Generation	Cost Per Pupil*	Estimated Cost of Services
Public Schools	\$8,800,864	379	\$12,597	\$4,773,324
Total	\$8,800,864			\$4,773,324
Estimated Theoretical Cost of County Government Services Phases I & II - Residential				
Service Category	County Property Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$8,800,864	4 to 6	4%	\$352,035
Public Safety		35 to 90	35%	\$3,080,302
Public Works		10 to 20	10%	\$880,086
Health and Welfare		1 to 3	1%	\$88,009
Recreation and Culture		1 to 3	1%	\$88,009
Total				\$4,488,441

Source: Burchell & Listokin, *A Practitioner's Guide to Fiscal Impact*; FCPS, BBP LLC 2011

*Cost per pupil provided by Fairfax County Public Schools

Exhibit 23

Estimated Theoretical Cost of County Government Services Phases I & II - Commercial				
Service Category	County Property Taxes	Percent Range	Estimated Use-Point	Estimated Cost of Services
General Government	\$30,221,402	4 to 6	4%	\$1,208,856
Public Safety		35 to 90	35%	\$10,577,491
Public Works		10 to 20	10%	\$3,022,140
Health and Welfare		1 to 3	1%	\$302,214
Recreation and Culture		1 to 3	1%	\$302,214
Total				\$15,412,915

Source: Burchell & Listokin, *A Practitioner's Guide to Fiscal Impact*; BBP LLC 2011

The calculation of the cost to FCPS is based upon pupil generation, illustrated in Exhibit 24 on the following page.

Exhibit 24

Calculation of Pupil Generation and Costs to Fairfax County Public Schools					
Phase I	Units	Yield Ratio	Pupils Generated	Avg. Cost per Pupil	Total Annual Costs
Mid/High-Rise Multi-Family					
Elementary	1,478	0.047	69	\$12,597	\$874,822
Middle	1,478	0.013	19	\$12,597	\$241,972
High	1,478	0.027	40	\$12,597	\$502,557
Total Phase I	1,478		129		\$1,619,351
Phase II					
Low-Rise Multi-Family					
Elementary	480	0.136	65	\$12,597	\$821,847
Middle	480	0.032	15	\$12,597	\$193,376
High	480	0.066	32	\$12,597	\$398,837
Subtotal Phase II	480		112		\$1,414,060
Mid/High-Rise Multi-Family					
Elementary	1,588	0.047	75	\$12,597	\$939,953
Middle	1,588	0.013	21	\$12,597	\$259,987
High	1,588	0.027	43	\$12,597	\$539,973
Subtotal Phase II	1,588		138		\$1,739,913
Total Phase I & II	3,545		379		\$4,773,324
Breakdown by School Category				SF/Pupil	SF
Elementary Phases I & II			209	50	10,465
Middle Phases I & II			55	50	2,760
High Phases I & II			114	50	5,721

Source: Town of Herndon; FCPS: BBP LLC 2011

At the current per student proffer rate of \$9,378 per pupil, the 379 pupils generated under Area Plan 3b would result in \$3.5 million in proffers. However, the actual proffers associated with such development could be different, as based on the way proffer amounts are calculated by FCPS:

- The current per student proffer of \$9,378 represents a decrease from a prior proffer amount of \$12,400; the decrease is due to the economic downturn and lower construction costs for FCPS. During the development review process, FCPS recommends an “escalation proffer” since the suggested per student proffer amount is updated regularly to reflect current market conditions and since some developments are not likely to commence construction immediately or will be phased-in over several years.
- During the development review process, FCPS does not provide the number of anticipated classroom spaces that would be needed based on the number of students anticipated. A suggested proffer amount is recommended at the time of site plan or building permit approval, which FCPS can use to offset the impact that the new development will have on surrounding schools. In addition, where appropriate, FCPS is receptive to proffers for dedicated space in commercial office buildings for school uses to accommodate future needs.

CONCLUSIONS AND NEXT STEPS

Key Findings

Area Plan 3b results in a **fiscal surplus** for the Town in Phase I and cumulatively in Phases I and II. The Comprehensive Plan build out scenario also results in a fiscal surplus over both time periods, although the relative size of the surplus is higher under Area Plan 3b. While Area Plan 3b represents **4.5 times** more cumulative development in Phases I and II than development under the Comprehensive Plan scenario, Area Plan 3b results in a surplus of \$10.7 million that is **10 times** higher than the surplus of approximately \$1 million generated under the Comprehensive Plan in Phases I and II.

Variables the Town can Change for Fiscal Impact Analysis Iteration #1

The next step in BBP LLC's economic analysis is to conduct a revised iteration of the fiscal impact analysis. The Town has flexibility to change specific factors between this baseline fiscal impact analysis and the revised fiscal impact analysis iteration #1. These factors include:

1. Size of study area
2. Amount, timing and location of existing development to be demolished and redeveloped
3. Mix of development (land uses, including mix of owner and renter occupied residential)
4. Distribution of traffic (east or west)
5. Density (floor area ratio) and where it is located
6. Future level of government services, including fees and infrastructure costs

Since Area Plan 3b results in a fiscal surplus, it is not necessary to change factors in order to achieve fiscal balance (which would be required if a deficit had been found). However, the factors may be changed and resulting fiscal outcomes will be modeled.

ATTACHMENTS

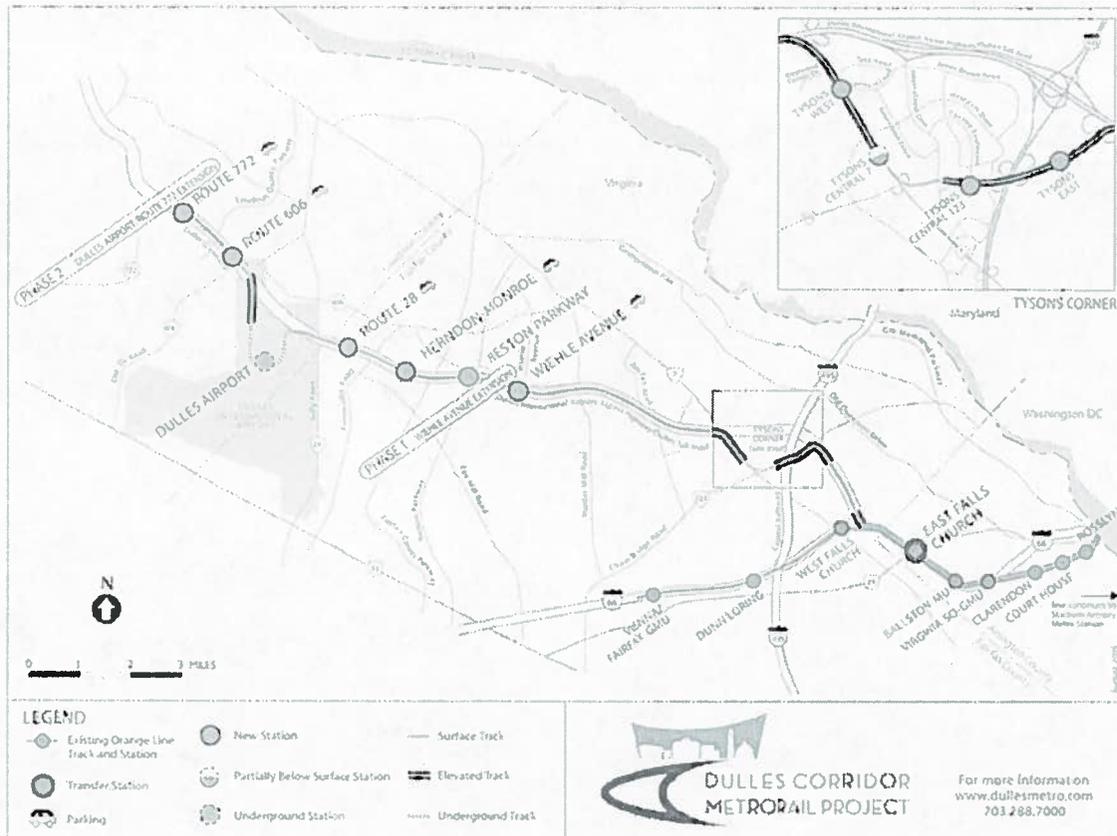
Fund 122: Dulles Rail Phase II Transportation District (from Fairfax County FY 2012 Adopted Budget).

Fund 122

Dulles Rail Phase II Transportation Improvement District

Focus

The purpose of Dulles Metrorail is to provide high-quality, high-capacity transit service in the Dulles Corridor. New Metrorail service in the corridor will result in travel time savings between the corridor and downtown D.C., expand the reach of the existing regional rail system, offer a viable alternative to automobile travel and support future transit-oriented development along the corridor.



On October 9, 2009 a petition (the "Petition") was filed with the Clerk to the Board of Supervisors to create the Phase II Dulles Rail Transportation Improvement District (the "Phase II District"). As required by Code of Virginia Ann. § 33.1-431, the petition was signed by owners of more than 51 percent of the commercial and industrial property within the proposed Phase II District, measured by assessed value, that would be subject to a special tax pursuant to Code of Virginia Ann. § 33.1-435 (a "District Tax"). Pursuant to that statute, following a public hearing on December 7, 2009, the Board created the Phase II District on December 21, 2009. It should be noted that on November 10, 2009, the Town of Herndon approved the creation of the Phase II District.

Phase II of the Dulles Metrorail project (the "Project") will run from just west of Wiehle Avenue to Ashburn in eastern Loudoun County. This extension will serve Reston Town Center, Herndon, Dulles Airport, Route 606, and Ashburn. Commercial and industrial properties in the Phase II District, which lie near the Project on either side of the right-of-way of the Dulles Airport Access and Toll Road ("DTR") within Fairfax County, will be taxed to help Fairfax County fund the County's share of the Project. Consistent with the Petition and the resolution adopted by the Board to create the Phase II District, a tax

Fund 122

Dulles Rail Phase II Transportation Improvement District

rate of \$0.05 per hundred dollars of assessed value was proposed for FY 2011 for commercial and industrial properties within the Phase II District. According to the Petition, for FY 2012, this tax rate increases to \$0.10 per hundred dollars of assessed value. It is expected to yield approximately \$6.6 million in revenue for the fund. The Petition proposed annual tax increases of \$0.05 cents per year until the rate reaches \$0.20 cents per \$100 of assessed value in FY 2014. The tax rate will be held at \$0.20 until full revenue operations commence on Phase II, which is expected in late 2016. At that time, the rate may be set at the level necessary to support the District's debt obligations. For planning purposes the Phase II District may not enter into a financing agreement unless it is reasonably believed that it can be accomplished within the maximum rate established by the petition of \$0.25 per \$100 of assessed value.

The original funding plan was that the federal government (through grants from the FTA) would pay 50 percent of the entire Metrorail Project cost (i.e., both Phases I and II), the Commonwealth would pay 25 percent using DTR revenues, and local governments would pay 25 percent. That plan was based on an early cost estimate made a number of years ago and prior to preliminary engineering and environmental studies that resulted in an improved estimate for the total project cost.

However, the Full Funding Agreement later entered into with the federal government provides for a federal share for Phase I only (Interstate 66 to Wiehle Avenue) and caps that contribution at \$900 million, which necessarily changes the percentages for the partners' shares. At this time, no federal funds have been committed to Phase II. The current absence of federal funds for Phase II has resulted in the DTR taking over the share of Phase II costs that the original plan had "assigned" to the federal government.

No funds may be expended until certain other conditions are met. Among these conditions is completion of the preliminary design and cost estimate for Phase II, acceptable to the Board or Supervisors, which is expected during 2011. Other key conditions include: 1) appropriate commitments from all sources contributing to Phase II are in place to assure completion of the Phase II Transportation Improvements; 2) the Phase II District's share of the aggregate capital cost does not exceed \$330,000,000; 3) the County's share of aggregate costs remain reasonably consistent with currently anticipated contributions; and 4) there is no "Supplemental Tax" on the commercial and industrial real estate within in the Phase II District that exceeds \$0.11 per \$100 of assessed value unless a credit or other benefit is extended substantially equivalent to the Supplemental Tax.

As a result of increases in estimated project costs and the lack of a federal funding commitment for Phase II, the original funding plan was revised. The current funding structure for the full project including both Phase I and Phase II is as follows:

- ◆ Fairfax County, Loudoun County and Airports Authority contribution is 25 percent.
- ◆ Federal contribution is 17.1 percent, which is based upon a fixed FTA grant for Phase 1 of \$900 million.
- ◆ The Commonwealth contribution is 5.2 percent, which is based upon a fixed contribution of \$275 million consisting of non-toll road funding.
- ◆ The DTR contribution provides the remaining amount, and is 52.7 percent.

Fund 122

Dulles Rail Phase II Transportation Improvement District

The total County share of the project cost is estimated to be 16.1 percent of the total project cost. Recent updates to preliminary engineering estimates indicate a cost range for Phase II from \$3.0 to \$3.8 billion, or a total project cost range of \$5.8 billion to \$6.5 billion. The total County share of the project is expected to range from \$933 million to \$998 million with \$400.0 million from the Phase I tax district and \$330.0 million from the Phase II tax district and the source for the remaining portion cost of \$203 to \$268 million to be determined.

FY 2012 Funding Adjustments

The following funding adjustments from the FY 2011 Adopted Budget Plan are necessary to support the FY 2012 program. Included are all adjustments recommended by the County Executive that were approved by the Board of Supervisors, as well as any additional Board of Supervisors' actions, as approved in the adoption of the budget on April 26, 2011.

- ◆ FY 2012 funding remains at the same level as the FY 2011 Adopted Budget Plan.

Changes to FY 2011 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2011 Revised Budget Plan since passage of the FY 2011 Adopted Budget Plan. Included are all adjustments made as part of the FY 2010 Carryover Review, FY 2011 Third Quarter Review, and all other approved changes through April 12, 2011.

- ◆ There have been no adjustments to this fund since approval of the FY 2011 Adopted Budget Plan.

Fund 122

Dulles Rail Phase II Transportation Improvement District

FUND STATEMENT

Fund Type G10, Special Revenue Funds

Fund 122, Dulles Rail
Phase II Transportation Improvement District

	FY 2010 Actual	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	FY 2012 Adopted Budget Plan
Beginning Balance	\$0	\$0	\$0	\$3,097,035	\$3,097,035
Revenue:					
Real Estate Taxes	\$0	\$3,582,035	\$3,582,035	\$6,654,110	\$6,654,110
Interest on Investments	0	15,000	15,000	65,210	65,210
Total Revenue	\$0	\$3,597,035	\$3,597,035	\$6,719,320	\$6,719,320
Total Available	\$0	\$3,597,035	\$3,597,035	\$9,816,355	\$9,816,355
Expenditures:					
Operating Expenses	\$0	\$500,000	\$500,000	\$500,000	\$500,000
Total Expenditures	\$0	\$500,000	\$500,000	\$500,000	\$500,000
Total Disbursements	\$0	\$500,000	\$500,000	\$500,000	\$500,000
Ending Balance¹	\$0	\$3,097,035	\$3,097,035	\$9,316,355	\$9,316,355
Tax rate/per \$100 Assessed Value²	\$0.00	\$0.05	\$0.05	\$0.10	\$0.10

¹ The ending balance will be accumulating in anticipation of the sale of bonds to fund the district's share of the project.

² Per the Petition the annual tax rate will increase \$0.05 cents per year until the rate reaches \$0.20 cents per \$100 of assessed value in FY 2014. The rate will be held at \$0.20 until full revenue operations commence on Phase II, which is expected in late 2016.

**Herndon Metrorail Station Area Plan
Anticipated Meeting Schedule: March – December 2011
May 2, 2011**

Meeting	Date, 2011
Special Planning Commission work session to learn and discuss STEP ONE Financial Analysis Findings	May 2
Town and VHB present Draft "Area Plan 3" at a Community Workshop with transportation analysis, including analysis of relocation of Herndon Parkway.	May 23
Special Planning Commission work session to learn about and discuss STEP TWO Financial Analysis Findings	June 13
Planning Commission work session to learn about and discuss STEP THREE Financial Analysis Findings	July 18
Planning Commission Work Session to learn about and discuss STEP FOUR Financial Analysis Findings and select components of final area plan	August 22
Tentatively, special Planning Commission Work Session for Presentation of updated "Area Plan 3" (depends on public hearing agenda)	Oct 3 or Oct 5
Regular Planning Commission work session to discuss draft plan	October 17
Town Council work session on draft plan	October 18
Planning Commission public hearing and recommendation on draft plan	October 24
Town Council public hearing on plan	October 25
Town Council work session to discuss plan	December 6
Town Council requested to take action on plan	December 13