Board of Supervisors Revitalization Committee

October 2, 2018

Government Center Conference Room 11

Supervisor Storck called the meeting to order at 11:10 am

Board Members present: Co-chairs Jeff McKay and Dan Storck; Chairman Sharon Bulova: Supervisors John Cook, John Foust, Penny Gross, Pat Herrity, Cathy Hudgins, Kathy Smith, Linda Smyth

<u>1. Revitalization Updates:</u>

Barbara Byron, Director, Office of Community Revitalization (OCR), gave an update on the following: the Tysons Progress Report and Revitalization Activity Update report; urban design guidelines for the CRD/CRAs, Baileys Crossroads/Seven Corners and Reston TSAs; CRD maintenance; and, the status of the small scale production initiative.

<u>2. Commonwealth of Virginia Funding Programs for Economic Development, Dr. Gerald Gordon and Catherine Riley, EDA:</u>

Gerry Gordon, CEO of the Economic Development Authority, gave a review of Commonwealth of Virginia programs for Economic Development and their use in Fairfax County. The Commonwealth Opportunity Fund (COF) is allocated by the Governor. The average grant is $1 million, and requires a 1-to-1 match. Fairfax County does not provide a cash match but rather uses the value of its infrastructure projects for its match. However, because most jurisdictions use cash matches there is growing pressure on the county to use cash. Also, the infrastructure project must benefit a whole area. Currently, Tysons has just about run out of acceptable matching projects.

Other Commonwealth programs include the Virginia Jobs Investment Program (VJIP) and the Virginia Economic Development Incentive Grant (VEDIG). Neither program requires a match from the county. The county has used the VJIP program 57 times which has generated $57.5 million for economic development. The state has reduced this grant program going forward, but the county will continue to pursue qualifying projects.

The VEDIG program is used to foster prospect that provide higher paying jobs. So far they have only been able to use this program one time for 400 jobs because the county's prevailing higher wages within the Commonwealth make it a difficult program for the county to use.

Cathy Hudgins mentioned the challenge of providing affordable housing for people with lower incomes or getting them to jobs. Gerry replied that this program encourages prospects to bring in higher paying jobs but does not address affordable housing or how to get workers to affordable housing (distance to employment). Supervisor Hudgins stated that we need to have those working on the Housing Strategic Plan work with economic development folks. It is a really big concern that we need to focus on and we need to get the state to the table.

Jeff McKay noted that the VEDIG program is new to the Board. He is assuming contractors cannot qualify when building new facilities. He asked if there is a timeline for positions to be in place. Gerry replied that he does not believe there is a timeline. He said companies do the relocation and find the labor. Mostly the jobs are not 1.5 times the prevailing wage.

Dan Storck said that the county has benefited from Gerry's expertise and from the EDA. He asked what tools are missing or needed, particularly with regard to Richmond Highway, and how we could make Fairfax County more competitive.

Gerry said there are two issues that will retard growth going forward: 1) the inability to get IT workers (currently180,000 IT jobs open, including 20,000 cyber security jobs). He said we have to convince people to study STEM or go back and get trained for IT jobs; and 2) venture capital. He said there is wealth in this region but it is not invested in young businesses or start-ups.

Dan Storck asked how they could incentivize growth. Gerry said that these are regional issues and that COG and the Board of Trade needs to step-up. He said it is also a workforce issue in that we need to retain our students.

John Foust said the VAGO and that NVTC are training IT workers but that he does not think we can train our way out of this problem. He said we need people to move here with these talents and then keep the ones we have. He said we need to think of this area as an innovation and technology hub and should get that story out about that.

Dan Storck added that they must recognize that it will take more than just incentives to solve these problems.

3. Commonwealth of Virginia Enabling Legislation for Local Incentive Zone Programs, Scott Sizer, OCE:

Scott Sizer stated that there is enabling legislation for seven "local zones". He noted that while the purpose of each zone is different, the actual tools they give to localities are similar - 1) regulatory relief, and 2) tax abatement with 10 or 20 year limits.

Abandoned School Revitalization Zones

This zone incentives private entities to develop real property or assemble parcels suitable for economic development that include an abandoned school site. Scott said staff does not recommend its use in Fairfax County because the county tends to use our equity in such properties through a PPP in order to incentivize development.

Local Enterprise Zone

This program is administered by the Virginia Department of Housing and Community Development, which provides financial incentives. It is targeted to areas to incentivize jobs paying 175% or 200% above minimum wages. Currently there are 57 such zones in the state even though the legislation only allows for 30. No new designations will be made until 2024. Scott displayed a map showing the current locations of Enterprise Zones in the state.

<u>Local Green Development Zones</u>

Scott stated that this zone helps businesses create green buildings or locate in green buildings. However, staff feels that the market is already providing for green buildings and therefore no incentive is needed. Thus, staff does not recommend this zone at this time. He noted that Fauquier County has one and that the City of Alexandria may add one in the future.

<u>Local Technology Zones</u>

The scope of these zones is very broad. They are intended to attract growth in targeted technology industries. They could be established for a part of the county or the entire county. Currently 37 jurisdictions in Virginia have them for a total of 75 actual zones. Arlington County, the City of Falls Church and the City of Fredericksburg all have them. They are looking closely at Arlington's Technology Zones that focuses on start-ups or early stage firms. Staff recommends that the county pursue this type of zone.

<u>Defense Production Zones</u>

These zones provide incentives for service providers that support national defense. Medical devices or other products or technologies that support defense as well as developers or designers of materials, components or equipment that meet national defense needs would qualify. Scott identified Fort Belvoir and its surrounds as a possible candidate for such a zone.

Dan Storck asked how broad the definition is and whether it would include things like wounded warriors making medical components. Scott said it would and that the definition is very broad. He noted that both Fauquier County and the City of Manassas have such zones.

Jeff McKay stated that the up to 20 year timeframe of the zone is appealing. Scott replied that the 20 year period appears to focus more on capital expenditures than defense production.

Penny Gross said that Atlantic Research in her district had left a contaminated site. She cautioned members to be aware of just what this zone means. She said the community may not embrace what occurred before and she was concerned about "things that go boom". Scott replied that they could setup a Defense Production Zone with specific limitations and that localities can define these zones more narrowly than the state.

Penny asked if the Zoning Ordinance would need to be modified. Scott said they have not yet done that research.

Barbara Byron said staff is looking for direction on which zones to pursue.

Linda Smyth asked if the old Raytheon site would qualify. Scott thought it would. Also, she said defense contractors are locating in nearby Fairview Park. Linda asked if they would look at the entire county or how they would go about deciding where within the county to locate these. She said they need to keep all places vibrant.

Barbara Byron said they would definitely include the Route 28 corridor.

Jeff McKay said they cannot say everywhere in the county is a Technology Zone. He said they need to identify strategic areas in the county and try to balance them geographically

Pat Herrity said they should be incentivizing areas where development may not occur otherwise and that they need to look at how we are competing against other areas. He said we do not want to incentivize an area where development would happen anyway.

John Cook stated that any tax incentive is an expenditure so they need to decide if a particular zone makes sense.

Pat Herrity said that if it creates development that would not happen otherwise it is a net gain, but if it is a relocation than it is just an expense.

Dan Storck said there is an energy and synergy of bringing people together. Scott said that the zones should be really targeted and strategic.

<u>Local Tourism Zones/Arts and Cultural Districts</u>

Scott reported that these zones may extend for up to 20 years and funds may be used for capital projects. He said these zones can receive Tourism Development Financing Program funding. These funds should go towards things that would not get done privately and be used to close the financial gap on projects.

Barbara Byron asked the Board for direction on the three zones being recommended by staff – Local Technology Zones, Defense Production Zones and Local Tourism Zones/Arts and Cultural Districts.

Linda Smyth said that the Arts and Cultural Districts may need to be looked at more closely. She said arts and culture centers are hard to do and tend to have financial gaps.

John Cook suggested creating a spreadsheet of the zones, identify what they achieve, where they might be located, and costs, including staff costs. He is concerned about the amount of staff time we are spending on these zones. He is not sure it adds up to a lot and if the time we are spending on this is worth it.

Jeff McKay thought a chart would be helpful. He suggested adding the state enabling legislation date and revenue impacts to such a chart. Also, he wanted to know where others are doing these in the state and if they are doing them well.

Penny Gross cautioned them to be very aware of the costs. These zones sounds good but often there is a lot of public expense for very little return.

<u>4. Economic Revitalization Zones, Barbara Byron, OCR:</u>

Barbara Byron said that Local Economic Revitalization Zones (ERZs) were authorized in 2017 by the General Assembly and provides for regulatory flexibility and incentives to the private sector to assemble property for economic development. To-date, Manassas Park is the only jurisdiction in the state to implement such a zone.

Barbara detailed the extensive community outreach they have undertaken and stated that the draft program she is presenting is based on this outreach. She identified the proposed locations for the ERZs in Fairfax County. She said the program is aimed at consolidation for redevelopment. They are proposing a minimum consolidation of two parcels that total at least two acres. However, she noted that the Board could consider smaller acreages under specific circumstances. She stated that properties previously assembled and entitled prior to the establishment of the ERZ would not be eligible.

Jeff McKay inquired about how this program affects re-entitling a property. He said to think about a re-entry bar for those that have not been developed. Barbara replied that they will look at this and whether it is permissible.

Barbara stated that there would be a number of regulatory incentives to expedite the review and processing of development applications in the ERZs. In addition they are proposing various fee reduction incentives as well as a real estate tax abatement incentive. Typically the incentives go to the initial developer who purchases and assembles the parcels, but they are allowing one pass through in situations where an initial investor purchases and assembles parcels, then passes the property on to a successor developer who then develops the property. She said they are proposing the tax abatement be applicable to most property types but not to single family detached homes, townhomes and condominiums of any type. She said the abatement time period is for ten years from the establishment of the ERZ. They are recommending a one year delayed effective date to allow for the program to be rolled out and educate the community.

Penny Gross asked what happens if a project does not get built. The county would have already reduced their development fees. Barbara replied that they plan to collect the fees upfront and rebate them to the developer when the project gets built.

Jeff McKay would like for the tools to be competitive. He is concerned about the definition and what projects are eligible. He said that he is not sure about the need to incentivize simple residential apartment development on Richmond Highway. He was concerned that there is no minimum square footage requirement for mixed-use-office or retail uses. He felt they should provide affordable housing or provide a mix of uses to qualify.

Barbara replied that some areas such as Annandale and Baileys Crossroads need residential apartment development and could be challenged by requiring a certain percentage of a development project to be commercial to qualify. However, they can customer each ERZ.

Pat Herrity also wanted a certain percentage to be commercial. He added he was not sure McLean needs to be incentivized. He also wonders about the Springfield TSA. He wants them to take a harder look at incentivizing because this program will be a cost to the county if in fact the development would occur otherwise.

John Foust said McLean is having a miserable time getting revitalization to occur. He said they need incentives in McLean. He asked if the tax incentives would be enough without throwing in the fee reductions.

Linda Smyth said to look at the guidelines of when we do it. A developer should still have to pay their costs for schools, etc. before we look at what else could be done. She said it should be part of their everyday responsibilities.

Jeff McKay will push really hard for the Springfield TSA to be included in the program. He felt that to get GSA to move out of there it will probably be through a program like this.

Pat Herrity said he was okay with removing the fee reduction from the program. He noted it was upfront cash out of the developer's pocket anyway. He said they should also look at the Fair Oaks and Fair Lakes areas.

The Board gave their approval to proceed with implementing the program but without the fee reduction component.

5. Federal Opportunity Zone/Opportunity Fund Program, Scott Sizer, OCE:

Scott Sizer reported that since late 2017 when the federal legislation passed, they have been trying to figure out what the program is and where to designate these zones in Fairfax County. The goal of the program is to encourage long-term investments of private funds into designated low-income areas. They are still waiting on the Department of the Treasury to publish the rules. In the interim he believes we will see more Opportunity Funds forming and capitalizing. Those industries working with the IRS believe the rules will be very general, and thus may be willing to chance it.

The program allows developers to avoid paying capital gains taxes for a certain time period. The idea is to create pools of capital to allow for investment in the nine designated areas in Fairfax County. Scott anticipates many of these pools will operate regionally. These pools of funds can be used to help retain or expand existing businesses, fund mixed-use development or redevelopment, assist public-private partnerships, or transit-oriented developments. He noted that the lower cost of borrowing could benefit workforce/affordable housing production.

Scott said they are working on an interactive map that would let property owners know whether or not they are located in an Opportunity Zone.

Also, they have created dash boards for each zone in order to encourage investment. He noted that Fairfax County's Opportunity Zones tend to have higher than average incomes compared to the nation, which could be advantageous for the county in terms of attracting investment.

A key question is how to connect property owners and businesses with these pools of funds and also how to find these investment pools. Scott said they would work with the EDA on these capital partnerships. He added that regional jurisdictions are creating pools and recruiting the capital, but there needs to be some assistance to connect the two.

John Foust stated that promotion and marketing is key for Fairfax County in order for it to stand out. This function has traditionally been the role of the EDA. He asked if new resources are being dedicated to this. Gerry stated that the EDA understands capital markets. It has invested in a database on investment funds so it can research them and then target certain ones. John said he would like to see an actual marketing/promotion plan put together.

Supervisor Storck adjourned the meeting at 12:15 pm.