FAIRFAX COUNTY
VIRGINIA

Public Investment in Support of the Redevelopment of the Huntington Club

Community Development Authority (CDA)/Tax Increment Financing (TIF)

Economic Initiatives Committee
July 26, 2022

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Meeting Purpose

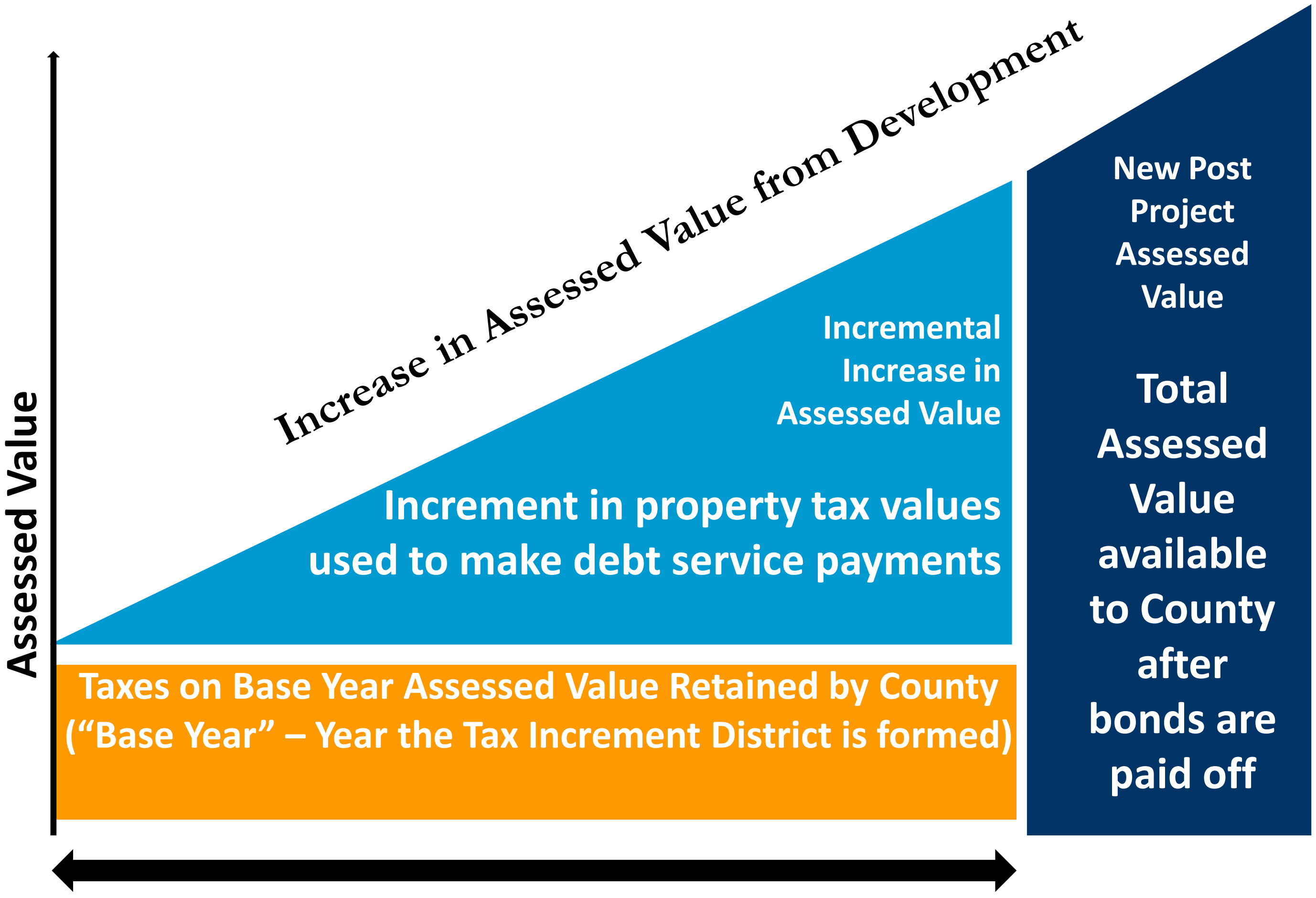
- Review revised Principles for Public Investment to Support Development
- Discuss establishing a Community Development Authority (CDA) for the Huntington Club (HC) redevelopment
- Consider directing CDA to provide for the sale of bonds to fund public infrastructure costs associated with the redevelopment of the Huntington Club, with the debt service paid from Tax Increment Financing (TIF) revenues, backed by special assessments

Revised Principles

- Adopted initially in 2008
- Based on experience and time, consolidated from 16 to 12
- Maintain all critical elements including:
  - Comply with Comprehensive Plan and Zoning Ordinance
  - No negative impact on County's credit rating
  - Transparency from developer for requested information
  - TIF financing properly structured
  - Meet the "But For" test
- Principles guide staff through project review and all phases of due diligence
- Attached as Appendix 1

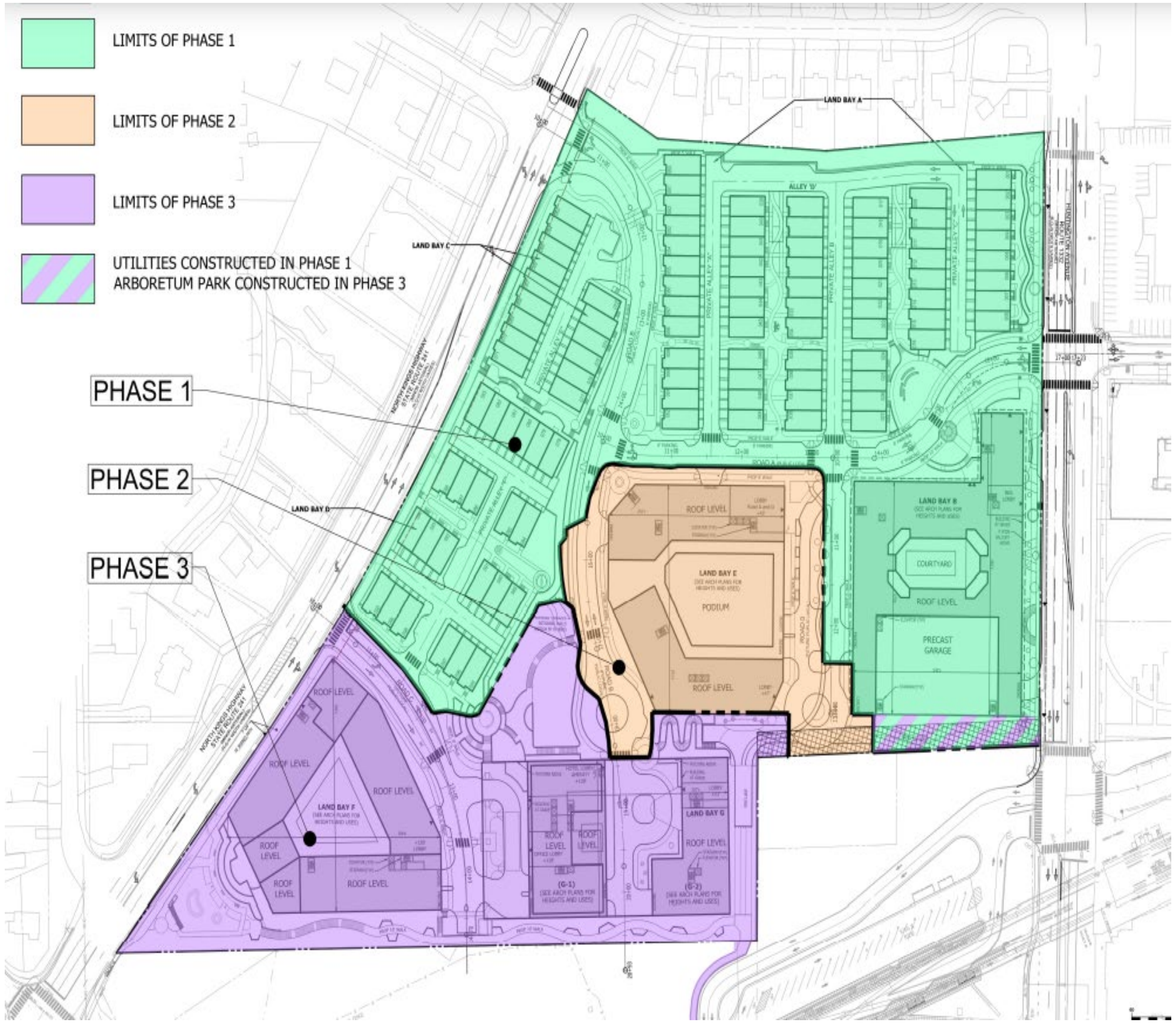
Tax Increment Financing – How Does it Work?

- Base value set at current assessed value
- New development increases assessed value
- Higher assessed value results in additional real property tax revenues
    - These revenues are the incremental tax revenues
- Incremental tax revenues are used to pay debt service on special obligation bonds issued to fund public infrastructure



Huntington Club Project Background

- Existing – 364 1960s Garden-style Condominiums on 19 acres adjacent to Huntington Metro Station
- December 2021, Board approved rezoning for 2.6 million square foot mixed-use project over three phases
- Phase 1 –Townhouse and Multifamily Residential (Land Bays A, B, C, and D); Maximum 515 units
- Phase 2 –Multifamily Residential (Land Bay E)
- Phase 3 –Multifamily Residential, Office, Hotel, and Continuing Care (Land Bays F and G).



Project Background (con’t)

- 2017 Termination Agreement among condo unit owners calls for the existing condominium regime to dissolve no later than December 31, 2022
  - “Opt-out” - 226-unit owners elected to leave and be paid out by December 31, 2022
  - “Opt-in” - 138-unit owners elected to remain throughout the redevelopment
  - Financial terms for unit owners set in Termination Agreement
- “Opt-in” owners represent a unique structure as the redeveloper of the project; contracted with IDI to act as Master Developer
- Revenue from the sale of land parcels A, B, and C will pay “Opt-out” owners, entitlement costs, professional fees, and replacement reserves
- Remaining revenue from sale of land parcels A, B, and C after payment to “Opt-out” owners is insufficient to cover first phase infrastructure costs
- HC team requests the CDA to issue bonds to fund infrastructure for phase 1 development using TIF revenue to pay debt service
- Staff explored other options – EIP, GO/EDA Bonds, Service District, PAYGO/Reserve; none were feasible

Request

<u>HC Team Initial Request</u>: $44m in total CDA / TIF Financing from the County

- Fund all project infrastructure costs for:

	Phase 1, 2A	Phase 2B, 3	Total
HC Request	$31m	$13m	$44m

<u>County Staff Team Analysis Based on Financials Provided by HC</u>

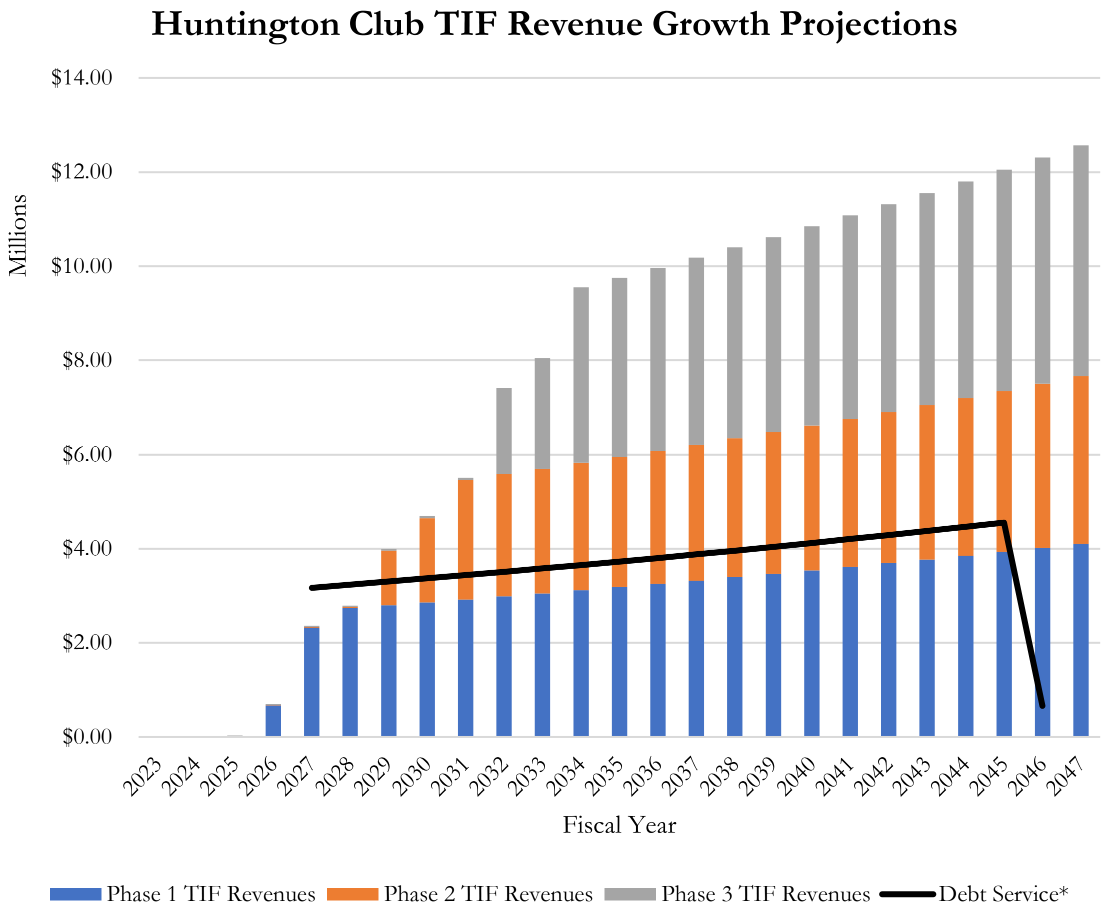
- CDA / TIF Financing not needed for all phases
- CDA / TIF Financing of Phase 1 infrastructure costs of **<u>$26.4m</u>** meets "But for" Test since residual land sale proceeds are insufficient to cover those costs

Preliminary Financing Summary

- Bonds issued by the HC CDA for Public Infrastructure for Phase 1 net proceeds of $26.4 million
- County has no legal liability for the bonds
  - General fund not pledged for repayment
- Bonds assumed to be sold as noninvestment grade bonds (e.g., no bond rating); translates to higher interest rate & debt service
- Debt service would be paid from County appropriations of:
  - TIF Revenues generated within the CDA
  - Special Assessments levied on all CDA property owners if TIF Revenues do not cover debt service payments
- Unlike Mosaic, special assessments will need to be collected to pay debt service in full until Phase 2 revenues are realized
- Bonds would also be secured by a Debt Service Reserve Fund
- Mix of tax-exempt and taxable costs is TBD

Projected Impact & Assumptions

Projected Revenue Impact*



Source: MuniCap numbers dated 6/23/2022
*Preliminary, subject to change, assumes market conditions as of 6/23/2022 & preliminary mix of tax-exempt and taxable bonds.

CDA Financing Assumptions*

Item	Amount
Total Sources of Funds – Includes costs of issuance, reserve fund, capitalized interest, underwriter's discount	$40m
Net Bond Proceeds – Infrastructure	$26.4m
Capitalized Interest Period	3 years
Term of Bonds (After Capitalized Interest Period)	20 years
Interest Rate (Estimated)	6-7%
Debt Service	$3.1m to $4.5m (escalating)

Relevant Documents

- Petition – HC team responsible for property owner consent and delivering to County a request for formation of a CDA
    - Petition must be signed by the owners of at least 51% of the assessed value in the proposed District (statutory minimum)
    - Seeking 100% landowner agreement to special assessment required before closing on bonds
- Memorandum of Understanding (MOU)
    - Outlines bond parameters, responsibilities, obligations, ownership
    - Sources of payment for CDA bond sale – TIF revenues & special assessment
    - County role in annual assessment & tax revenue collection
    - CDA Governance – members selected by the Board and serve at the Board's pleasure; no third-party contractual appointment rights

Risks/Considerations

- Debt Service Repayment Risks
  - Phase 1 TIF revenues estimated at 85% of debt service in every year through final maturity of the bonds
  - Special assessments will need to be collected to cover the shortfall until Phase 2 is completed
    - Special assessments likely to be collected from owners of undeveloped property, including the "Opt-in" owners
    - Need for special real estate tax back-up if special assessment held to be legally unenforceable
  - The "opt-in" property owners must be prepared to make these annual payments
    - If special assessment not paid, foreclosure occurs
  - TIF revenue is forecasted to cover debt service (without a special assessment) after Phase 2 comes online in (projected by HC to be FY 2029)
- Rising interest rates & volatile conditions in the bond market
- Infrastructure costs are subject to impact of inflation and supply chain issues
- Specific infrastructure line items are subject to state and tax law review

Risks /Considerations (con't)

- Condo termination - unique situation
- Project would not occur without CDA/TIF
- Potential for increased assessed values and real estate tax revenue
- Furthers Transit Oriented Development
- Gain to general fund after positive coverage is achieved with Phase 2 and Phase 3 development
- Considerations are balanced against the risks
- County team to continue additional project due diligence, market analysis and policy review

Target Timeline*

Date	Item
September 26, 2022	• Economic Initiatives Committee – Follow Up Items If Necessary
November 5, 2022	• BOS Meeting - Administrative Item – Advertisement of a Public Hearing on Ordinance to create HC CDA
December 6, 2022	• BOS Meeting – Public Hearing on Adoption of Ordinance to create HC CDA
January 2023	• HC CDA Initial Organizational Meeting
April 2023	• BOS Meeting – Administrative Item for Bond Documents for HC CDA Bond Sale • HC CDA Meeting – Action Item for Bond Documents for HC CDA Bond Sale
May 2023	• BOS Meeting – Administrative Item Authorizing Advertisement of Public Hearing of an Ordinance Imposing Special Assessment and/or Special Tax in CDA District
June 2023	• BOS Meeting – Public Hearing to Approve Bond Documents • HC CDA Meeting • HC CDA Bond Sale

*Preliminary, subject to change.

Staff Requests

- Adopt the Revised Principles for Public Investment to Support Development
- Direct staff to continue ongoing work to related to establishing the HC CDA
- Direct staff to return to the Board for follow on questions and information per target timeline

Questions?

Appendix 1

Proposed Revised Principles for Public Investment to Support Development

Principles for Public Investment to Support Development

1. Public funds shall be directed toward "Pioneer Projects," which may include single-site projects, multi-site projects, or other public improvements that have strategic importance related to achieving the County's goals.

2. Public benefits shall further the County's revitalization, environmental, redevelopment, affordable housing, investment or other policy objectives. The public purpose and the financial and other benefits from all publicly funded improvements shall be clearly defined and, based upon the nature of the benefit, measurable or otherwise demonstrable.

3. Projects must comply with the County's Comprehensive Plan and Zoning Ordinance.

4. Public funding mechanisms shall only be used for public improvements authorized by Virginia law and specified by the Board of Supervisors. Public improvements may include, but are not limited to, environmental infrastructure, transit, utilities, bicycle, pedestrian and streetscape infrastructure, public parks, open spaces, cultural facilities and parking garages.

5. There shall be no potential negative impact on the County's credit ratings or reputation in the capital markets.

6. To limit the potential direct or indirect liability (or other risks) to the County from a project (or its development), the developer shall provide financial or other assurances in a type and at a level acceptable to the County.

Principles for Public Investment to Support Development

7. Public funding proposals must include (i) a detailed analysis of the project's financial feasibility and (ii) a description of the costs the developer proposes to bear up-front or over time. The County reserves the right to determine the costs to be borne by the developer versus the public on a case-by-case basis.

8. Tax increment (TIF) or special assessment financing using a Community Development Authority may be considered upon a demonstration (a "but for test") that an appropriate rate of return to encourage private investment is not otherwise feasible. Other types of special tax districts (such as special service districts or improvement districts) and associated financial approaches may also be considered.

9. To permit the County to conduct appropriate diligence, developers must grant the County full access to all relevant records, including project plans, pro formas and other relevant information for any project requesting County support.

10. TIF or special assessment financing will be considered only with the advance contractual participation of all affected landowners.

11. TIF or special assessment bonds shall be structured conservatively with appropriate debt service coverage to maximize the likelihood that pledged revenues will be sufficient to pay debt service and with a special tax back-up, in appropriate cases.

12. TIF or special assessment bonds shall mature no later than the useful life of the financed assets.