Fairfax County Board of Supervisors
Economic Initiatives Committee (EIC)
J. Hamilton Lambert Conference Center (Room 11)
December 10, 2024

Meeting Summary

Board Members present: EIC Chairman Supervisor Daniel G. Storck, Board of Supervisors (BOS) Chairman Jeffrey C. McKay, Supervisor Andres F. Jimenez, Supervisor James N. Bierman, Supervisor James R. Walkinshaw (participating remotely), Supervisor Walter L. Alcorn, Supervisor, Rodney L. Lusk, Supervisor Pat Herrity, Supervisor Dalia A. Palchik

Board Members absent: Supervisor Kathy L. Smith

Remote Participation by Supervisor Walkinshaw
In compliance with Fairfax County meeting policy for remote participation in meetings, EIC Vice Chair McKay presented a motion to allow Supervisor Walkinshaw to participate in today's meeting. Supervisor Walkinshaw stated his name and general location so everyone could hear him. The motion was then seconded by Supervisor Palchik and approved unanimously.

Opening Remarks and Approval of Meeting Summary
EIC Chair Storck presented the meeting minutes from the July 23 meeting. They were approved unanimously with no changes. He then recognized the Department of Economic Initiatives Deputy Director Scott Sizer for the first presentation.

Economic Opportunity Reserve Overview and Update
The agenda for Sizer's presentation included the creation of the Economic Opportunity Reserve (EOR) ten years ago as well as the Economic Development Support Fund (EDSF). He also included a review of some of the 17 investments made to date. It was followed by feedback from BOS Members.

The EOR was created after the Ten Principles of Sound Financial Investment were revised at the April 15 BOS meeting in 2015. At that time the Board also decided to increase the General Fund Reserve goal from 5% to 10%. Prior to that there were two General Fund Reserves: Managed Reserve Fund and the Revenue Stabilization Fund, which totaled 5%. When the increase occurred, those funds increased to 9% and the newly formed EOR made up the remaining 1% of the 10% reserve goal. The Board's policy states that these reserves would be replenished each fiscal year.

The Board decided in 2016 to plot the use of the EOR through funding identified projects. The EDSF was created at that time and provided $5 million to support those projects. It would be important testing ground in establishing the policies and practices for the EOR. In 2017 the Board adopted the Eight Principles of Investment in Economic Opportunities which created three projects with outcomes and goals as well as processes for the investments made. An additional $2 million was placed in the EDSF as part of the FY18 carryover. By the end of FY19 the EDSF reserves were moved into the EOR. The last Board action was to revise the Eight Principles to address impacts of the COVId-19 pandemic to support small businesses impacted.

The EOR currently has $56.5 million with about 1% for General Fund disbursements. Approximately two projects per year have been funded over the life of the EOR. There was a total of 17 projects funds with $12.4 million distributed. The figure does include the $6.2 million for the downtown Hernon project which has yet to be disbursed. It is the single largest project approved for EOR funding.

There are investment categories for the approved projects: Capital Development, Programming Support, COVID-19 Programs and Property Acquisition. The one category that has not received funding to date is Property Acquisition. There was one very important investment the Board made early in the COVID-19 pandemic to support the small business community with a microloan fund, which was set up as a revolving fund that still exists within the Community Business Partnership.

Sizer reviewed the Investment Principles which provide the County with an economic benefit evaluated over 10 years and are one-time funding opportunities. He mentioned the downtown McLean Project for the Arts project as the latest investment. The four themes for these projects are small business support, place-led economic development, leverage regional projects and innovation sector development. He reviewed each category and the outputs and outcomes. One of the latest is the creation of the Fairfax Founders Fund.to provide early-stage capital to startups.

Some of the early projects led to the establishment of the Economic Opportunities section of the Countywide Strategic Plan. The pilot projects also spawned some current programs which were placed in the newly formed Department of Economic Initiatives formed by CEX Hill. However, there has been a lack of investment in capital projects and land acquisition over the past ten years.

Supervisor Storck began the discussion by highlighting the 13 grant recipients from the Fairfax Founders Fund. Awards of up to $50,000 made to these startup companies were based on their innovative technology solutions and their commitment to stay in Fairfax County. He also pointed out another EOR grantee in the successful Accelerate Breakfast series. Lastly, he mentioned the new Council for Economic Opportunity which brings business leaders together with the Board to share ideas that foster economic development and growth.

Chairman McKay followed by recognizing County Executive Hill for his vision to establish the Department of Economic Initiatives that led Fairfax County's efforts to support small businesses during the pandemic. He pointed out the wide variety of investments that have been made throughout the years. He particularly emphasized geographic balance and array of programs that have come from the investments as well as the importance of continuing to track them vis-à-vis their impacts. He said it is important for the Board to know the return on investment for these projects and then make decisions on the ones that are most needed since funds may be limited in the future. He thanked the staff for their efforts.

Supervisor Lusk noted the $1.56 billion in capital raised for the Innovation Hub initiative at Refraction. The funding was primarily received by the businesses incubating at Refraction since the County's investment and includes those who have since left there. Lusk requested some additional metrics: job created, square footage and office space generated after leaving Refraction, and capital investments as the businesses grew and expanded. He asked for clarification on the COVID-19 microloan program. Sizer pointed out that revolving loan funds include principal and interest so they should continue to grow over time. Finally, he attended several Accelerate breakfasts and is looking forward to hearing more success stories from startups. He did request additional metrics for that project.

Supervisor Herrity mentioned that the Accelerate Breakfast series is one which is going from County led investment to one that is private sector led. It now receives private sector sponsorship dollars. Supervisor Palchik asked if there is a list of those businesses who used the microloan fund and where they have been since leaving the program. Staff will follow up with Community Business Partnership to obtain some of the metrics through a survey or other tool for the Board.

Supervisor Storck raised the question if the EOR should be a reserve. The Board should look more deeply into it and how it may impact on the County's overall reserves. He also asked if there are other jurisdictions with a similar fund and what could be learned from them through best practices. Sizer pointed out that programs are tracked, but not many have a funding mechanism like the EOR. He added that some other jurisdictions have cash incentives. DEI Director Rebecca Moudry commented that it is not common practice for jurisdictions to use a reserve for economic development projects. These projects are funded once and are not ongoing programs. Storck responded by considering how to help our young people in our FCPS schools with innovative projects.

<u>Retail Land Use Trends</u>
Supervisor Storck introduced the next topic on retail land use and then turned the floor over to DEI Director Moudry who introduced Kelly Atkinson, Director of the Planning Divion for the Department of Planning and Development. Their presentation included an overview of the Fairfax County retail market, retail land use findings from a Clarion report, next steps as they relate to the Comprehensive Plan Policy Amendment and finally feedback and discussion from Members.

Moudry described the Fairfax County retail market as strong, with 2,500 retail trade firms employing 50,00 workers. If accommodation and food services firms are added the total number of companies jumps to 5,000 firms employing 91,500 workers. Most firms are in the over 230 shopping centers across Fairfax County. According to the Department of Tax Administration there is between 45-50 million square feet of retail space and a vacancy rate of 3.5%. The retail market comprises about 15% of the total Fairfax County employment and consists of three main industries: retail trade, arts and entertainment and accommodation and food service.

One of the most important partners for retail is the retail broker, who assists with finding spaces in a tight market. Other key partners include shopping center managers, towns, chambers and business associations, business resources such as FairfaxCORE, and placemaking.

Atkinson began by stating that national retail vacancy rates are the lowest in two decades, though they peaked during the pandemic. Neighborhood and community retail have the highest vacancy rate while the power and regional centers have the lowest. The Clarion report showed that growth has been tied to specific types of retail, and that lack of new construction has imposed constraints on new retail establishments.

Virgina retail vacancy rates are slightly lower than the national average: 3.8% compared to 4.1%. In Virginia, small and neighborhood vacancy rate were lower than big-box vacancies (1.9% compared to 5%). Finally, in Northern Virginia the retail vacancy rate (3.4%) is lower than both the national and state rate. The report found the following factors regarding retail vacancies: 1) impacts from COVID-19 online retailing and closures; 2) ground floor retail space and those tied to office space; and 3) the construction pipeline has slowed. Big box stores and enclosed malls are in decline, except places like Tysons Corner Center and Tysons Galleria which have a regional appeal.

The Clarion report also stressed the importance of repurposing retail structures like underutilized parking lots, strip shopping centers and shopping malls that can be transformed into additional housing. The Springfield Town Center is one location that has been successfully transformed. Atkinson added that the Fairfax County's zMOD policy has allowed projects like the food hall in Annandale to be established in a revitalization area.

The report also made some recommendations for underutilized and vacant retail in the Comprehensive Plan Policy Plan Amendment. They include discourage the displacement of viable retail businesses when a redevelopment proposal is made through the use of agreements and incentives to preserve those spaces, make ground level retail a priority along major streets and create retail corridors, allow retail uses to align with updated policies, and encourage retail that conform with performance guidelines. It added that additional housing should be considered in the redevelopment of these retail areas without the use of a plan amendment.

Chairman McKay began the discussion by informing Members of a recent NAIOP meeting with Supervisor Storck on the Richmond Highway corridor. Panelists representing the retail industry in the area were lauding Fairfax County for its leadership in creating and maintaining a vibrant retail community. He highlighted zMOD and how it has created a more flexible zoning environment for businesses. He also pointed out the flexibility of the policy plan to respond to the market in a timely manner. He finished by saying how important the retail centers are to the residents around them.

Supervisor Lusk requested disaggregated data by magisterial district. Moudry responded that it should be possible and noted that the Fairfax rate of 3.5% is probably on par with the region since that data was compiled a few months ago. Chairman McKay added that square footage data for new retail space should also be included for comparison by district. The report made it apparent that online and home services have exacerbated the retail space vacancies.

Supervisor Palchik asked if there is any additional information that can inform the Board when considering retail space in a development project proposal that has not considered it. The report made recommendations for retail on main streets, in shopping corridors, and close to public transit, and other options for non-residential uses. Atkinson mentioned the partnership between the departments to find programs that can support additional retail and avoid displacements. Moudry added that they are looking at different strategies to support retail businesses in light of the fact that federal funds from ARPA are ending.

Supervisor Alcorn mentioned pop-up spaces that are only used for months at a time and how they have brought the community together. He asked if incentives could be used for community groups, non-traditional retail, or retail startups to use vacant retail spaces on a short-term basis that are as inclusive as possible. DPD Director Strunk mentioned that Land Development Services is looking into permitting for pop-up events that have short-term retail and community uses.

Supervisor Storck expressed surprise that the retail market is doing so well and that the vacancy rates are so low. Moudry responded by saying that the retail businesses are finding ways to adapt to the changing environment. The THRIVE program helps support some of these businesses with coaching and other technical assistance to adapt. Many Fairfax County shopping plazas have a regional attraction that brings in customers beyond its borders. Supervisor Herrity added that the growth in Inova Health System and the growth of sports teams and events also contribute to the strong retail market.

Supervisor Storck also asked if the report addressed qualitative retail growth and if some locations are doing better than others. Atkinson remarked that the older strip malls continue to struggle. In the meantime, retail in places like the Reston Town Center and Mosaic with active hands-on activity centers are thriving. Chairman McKay reiterated how zMOD is allowing for the flexible uses for office as well as retail spaces. Repurposing those struggling spaces with big box centers will continue to be important. Moudry responded by saying that the Baileys Crossroads/Seven Corners area is thriving because of its location for customers.

EIC Chairman Storck adjourned the meeting.