FAIRFAX COUNTY
VIRGINIA

Public Investment in Support of the Huntington Club Redevelopment Community Development Authority (CDA)/Tax Increment Financing (TIF)

Economic Initiatives Committee
December 13, 2022

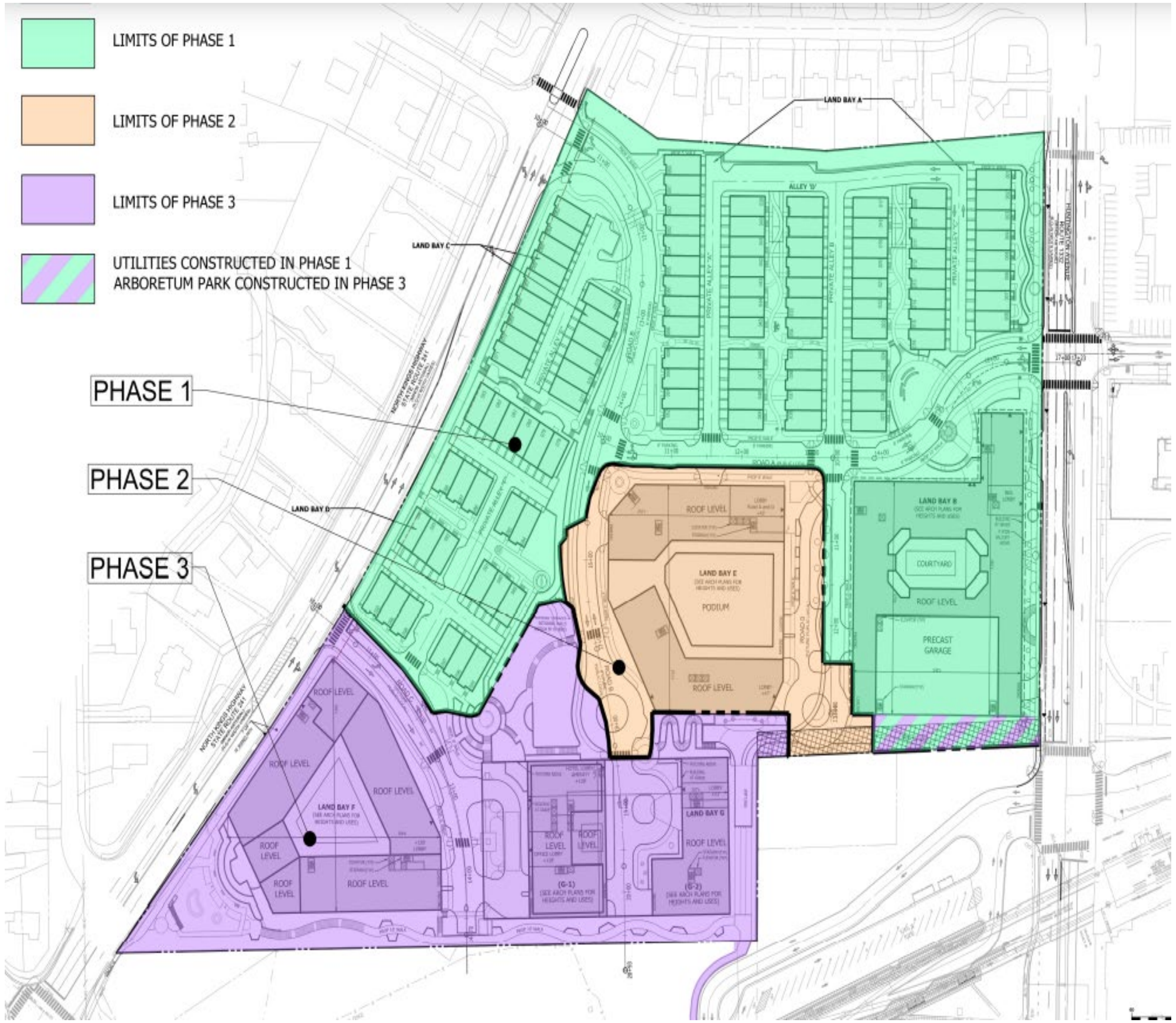
Joe LaHait, Debt Manager
Keenan Rice, President, MuniCap
JoAnne Carter, Managing Director, PFM

Meeting Purpose

- Project updates since July 2022 EIC presentation
- Discuss establishing a Community Development Authority (CDA) for the Huntington Club (HC) redevelopment
- Discussion of potential of CDA bonds
  - To fund costs of publicly (CDA) owned infrastructure
  - Debt service paid from Tax Increment Financing (TIF) revenues, backed by special assessments and, if necessary, a special tax

HC Project Background

- Existing – 364 1960s Garden-style condominium units 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); Maximum 640 units
- Phase 3 –Multifamily Residential, Office, Hotel, and Continuing Care (Land Bays F and G); Maximum 455 units
- November 16, 2022, Planning Commission approved FDP for Phase 1



HC Project Background (con't)

- 2017 Termination Agreement among condo unit owners with condo association called 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
- Revenue from the sale of land parcels A, B, and C will pay portion of "Opt-out" owners, entitlement costs, professional fees, and replacement reserves
- Revenue from the sale of land parcels A, B, and C, net of payment to "Opt-out" owners, is insufficient to cover first phase infrastructure costs
- HC team requests the CDA issue bonds to fund infrastructure for development using TIF revenue to pay debt service
- CDA / TIF Financing of Phase 1 infrastructure costs of approximately **$26.4m** meets **"But for"** Test since residual land sale proceeds are insufficient to cover those costs
- Infrastructure costs for Phases 2 and 3 to be borne by HC

Update - Termination Agreement Extension Request

- August 2022 - Jefferson Apartment Group (JAG) notified HC that it wanted all approvals and financings in place prior to purchasing Land Bay B
  - CDA bonds not targeted to be sold until fall 2023
  - Request for concurrent closing on sale of land bay and CDA bonds
- September 2022 – HC Board agreed to JAG's request
- HC asked unit owners to vote on an extension of the current Termination Agreement from December 31, 2022, to December 31, 2023
- Voting period for the extension request expires December 31, 2022
- Need 80% approval to implement extension
- HC reports it has achieved **64%** approval as of December 5, 2022

Project Updates

- Petition to Form CDA
  - HC team responsible for property owner consent and for delivering to County a request for formation of a CDA via a formal Petition
  - Petition must be signed by the owners of at least 51% of the assessed value in the proposed District (statutory minimum)
  - HC reports it has achieved **<u>61%</u>** signoff from owners as of November 9, 2022
  - Preparing to formally submit to the County
- LDS – submission of plans and initial reviews underway

Preliminary Financing Summary

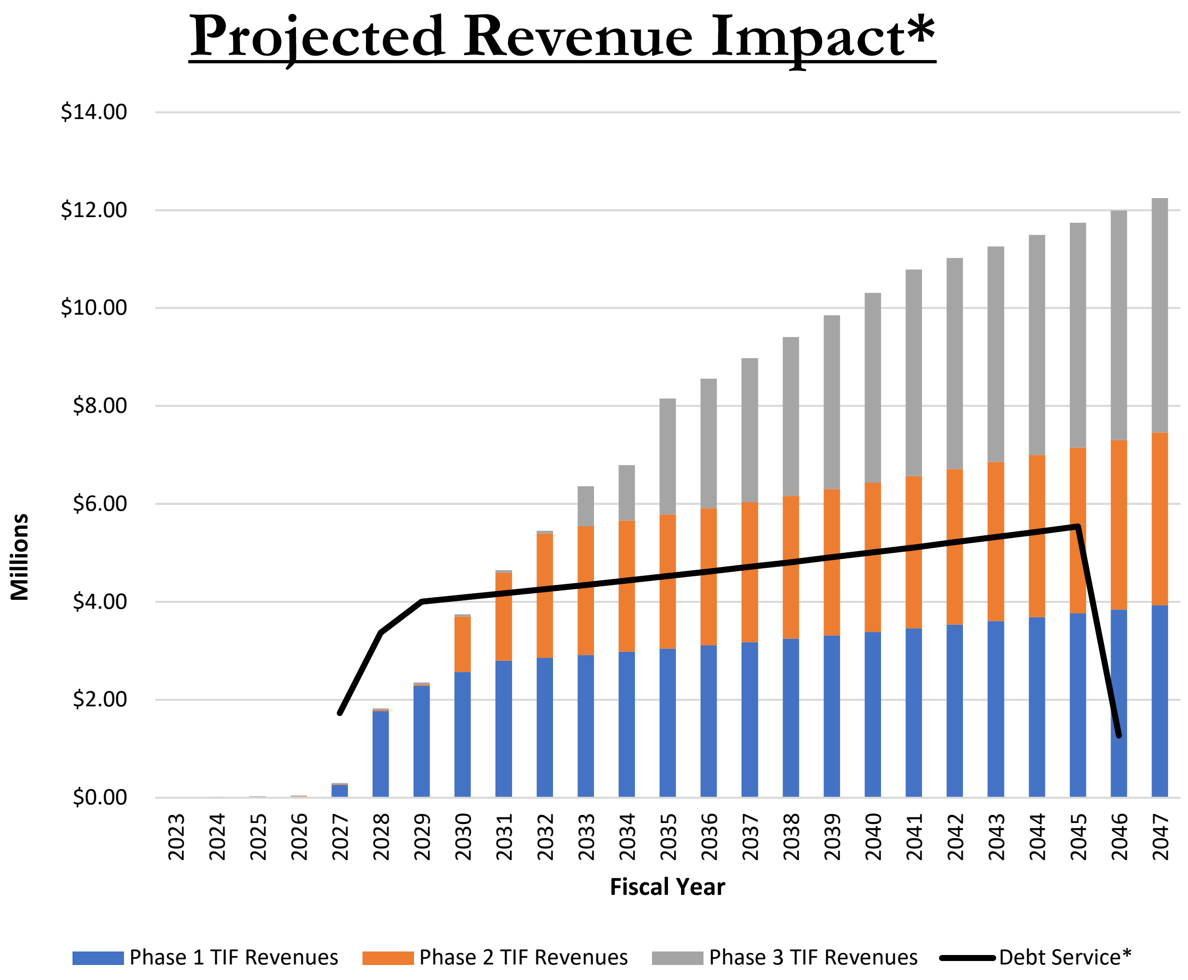
- Bonds issued by the HC CDA for publicly (CDA) owned infrastructure for Phase 1
- County has no legal liability for the bonds - General fund not pledged for repayment
- Bonds assumed to be sold as non-investment grade bonds (e.g., no bond rating); translates to higher interest rate & debt service
- Debt service would be paid from County appropriations of:
  - TIF Revenues generated within the CDA
  - Special Assessments collected when TIF Revenues do not cover debt service
  - Special tax levied if special assessments are determined legally unenforceable
- Unlike Mosaic, special assessments will need to be collected during Phase 1 to pay debt service in full at least until Phase 2 revenues are realized
- Bonds would also be secured by a Debt Service Reserve Fund
- Mix of tax-exempt and taxable infrastructure costs is TBD

Projected Impact & Assumptions

Updates to reflect current market conditions

Item	July 2022	December 2022
Total Sources of Funds – Includes costs of issuance, reserve fund, capitalized interest, underwriter's discount	$40m	$45m
Net Bond Proceeds – Phase 1 Infrastructure	$26.4m	$29.1m (10% increase to account for inflationary estimate)
Capitalized Interest Period	3 years	3 years
Term of Bonds (After Capitalized Interest Period)	20 years	20 years
Interest Rate (Estimated)	6.00-7.00%	7.25-8.00%
Debt Service	$3.1m to $4.5m (escalating)	$3.3m to $5.5m (escalating)

Projected Impact & Assumptions



Source: Municap report 11/18/2022 and assumptions contained therein including but not limited to interest rate, public improvement budget, development program, forecasted TIF revenue, and mix of tax-exempt and taxable bonds.

- Phase 1 Development only - TIF revenues alone do not cover debt service annually for the full term of the bonds. **Requires collection of special assessment annually to cover the shortfall.**
- Phase 1 and Phase 2 Development – TIF revenues do not cover debt service for initial four years. **Requires collection of special assessment during each of those four years to cover the shortfall.**

Special Assessment Impact – HC "Opt-In"

	Phase 1	Phase 1, 2
HC Special Assessment less assumed TIF revenue credit*	$29.6 million	$5.0 million
Special Assessment Collection Duration*	Full term of the Bonds	4 Years
Estimated Average Annual Special Assessment Collection Per HC Opt-In Owner*	$11,300	$8,000
Estimated Total Average Special Assessment Paid Per HC Opt-In Owner*	$215,000	$32,000

*Preliminary and subject to changes; Assumes 138 opt in out of 364 total current owners;
Source: Municap report 11/18/2022 and assumptions contained therein including but not limited to interest rate, public improvement budget, development program, and forecasted TIF revenue.

Payment of the Special Assessment

- Staff requested HC set aside $5 million – amount estimated by County's advisors to equal the first four years of estimated Special Assessment risk
- HC has not yet provided a plan acceptable to the County to address this risk
- HC has responded:
  - The assumptions that resulted in the $5 million projection should be revised to result in a lower amount
  - Will work to address the special assessment risk at a future date
- Fails to resolve significant risk factor for bond financing
- Memorialize these terms in the MOU or Development Agreement

Risks / Considerations

- Debt Service Repayment Risks
  - Phase 1 TIF revenues estimated at 66% 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
    - Dedicated reserves needed to mitigate potential impact on "opt-in" owners
    - If special assessment or special tax not paid, foreclosure occurs
  - TIF revenue is forecasted to cover debt service (without a special assessment) after Phase 2 comes online
- In addition, HC states that it needs up to a $15 million loan to pay off mortgages for opt-in units at termination date – to date, these funds have not been secured

Risks /Considerations (cont'd)

- Condo termination - unique situation
- Rising interest rates & volatile conditions in the bond market
- Infrastructure costs are subject to impact of inflation and supply chain issues, further affecting bond sale terms
- Specific infrastructure line items are subject to additional state and tax law review to determine if can be funded by taxable/tax exempt bonds
- Potential for increased assessed values and real estate tax revenue
- Furthers Transit Oriented Development
- Gain to County general fund after positive coverage is achieved with Phase 2 development
- Project would not occur without CDA/TIF
- Considerations are balanced against the risks

Target Timeline*

Date	Item
July 26, 2022	• Economic Initiatives Committee – Huntington Club Discussion
December 13, 2022	• Economic Initiatives Committee – Follow-Up Huntington Club Discussion
February 7, 2023	• BOS Meeting - Administrative Item – Advertisement of a Public Hearing on Ordinance to create Huntington Central Community Development Authority (HC CDA)
March 7, 2023	• BOS Meeting – Public Hearing on Adoption of Ordinance to create HC CDA
April 2023	• HC CDA Initial Organizational Meeting
May 2023	• HC CDA Meeting – Action Item for Bond Documents for HC CDA Bond Sale
June 2023	• BOS Meeting – Administrative Item Authorizing Advertisement of Public Hearing of an Ordinance Imposing Special Assessment and if needed Special Tax in CDA District
July 2023	• BOS Meeting – Public Hearing and Adoption of Ordinance Imposing Special Assessment and if needed Special Tax in CDA District and Action Item to Approve Bond Documents
August / September 2023	• Prep / Marketing for CDA Bond Sale • CDA Bond Sale
October 2023	• Closing CDA Bond Sale

*Preliminary, subject to change.

Staff Request

- Monitor the voting status of HC Termination Agreement extension request through December 31, 2022.
- If 80% target vote achieved, continue ongoing work related to establishing the HC CDA and Plan of Finance.
- Direct HC to provide plan acceptable to County for Special Assessment obligation prior to creation of CDA. Non-County source of funds.
- Concur the Special Assessment risk needs to be quantified prior to posting of bond offering documents and funded at / or prior to bond closing.
- Reinforce need for HC Team to confirm commitment to full and timely transparency with respect to on-going document and financial requests
- Return to the EIC and/or Board as directed for next steps. Contingent upon timely receipt of acceptable plan.

Questions?