


## City of Alexandria, Virginia

## MEMORANDUM

**DATE:** DECEMBER 9, 2010

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** JAMES K. HARTMANN, CITY MANAGER 

**SUBJECT:** ORDINANCE TO ESTABLISH THE TIER I POTOMAC YARD METRORAIL STATION SPECIAL SERVICES DISTRICT

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**ISSUE:** How to finance the proposed Potomac Yard Metrorail Station.

**RECOMMENDATION:** That City Council introduce the ordinance, pass it on first reading and schedule it for public hearing, second reading and final passage on Saturday, December 18.

**BACKGROUND:** The possibility of a Metrorail station in Potomac Yard has long been discussed in the City since the planning of how to redevelop the former RF&P rail yard was first discussed starting in 1987. With the approval of a comprehensive development plan for a large portion of Potomac Yard in 1999, revisions to Landbay G and H plans in 2008 which moved office density northward, and with the approval of the North Potomac Yard (Landbay F) Coordinated Development District (CDD) in mid-2010, progress has been made towards achieving the goal of establishing what would be only the second infill station constructed in the entire Metrorail regional heavy rail transit system in the Washington, D.C. area. The most recent progress in 2010 was the result of over two years of community meetings and discussions, the work of the Metrorail Station Feasibility Work Group, and that of the Potomac Yard Planning Advisory Group, as well as work with the land owners/developers of Potomac Yard with various stakeholders in crafting, developing and proposing a redevelopment plan for North Potomac Yard, which City Council approved on June 12, 2010.

A keystone to that redevelopment, which contemplated 7.5 million square feet of mixed use development in North Potomac Yard, was the proposed financing and construction of a Metrorail Station that could serve that development, as well as the planned and existing development in the balance of Potomac Yard. As part of the study of the feasibility of a Metrorail station, planning and engineering studies were undertaken in 2009 and 2010 to determine the possible locations of such a Metrorail station, as well as how it could be financed. The most feasible, preferred sites were determined to be station locations that straddled the existing Metrorail line which runs between the George Washington Parkway to the east and most of Potomac Yard to the west (except for the Potomac Greens part of Potomac Yard, which sits to the east of the Metrorail tracks). The actual location of the proposed Metrorail station will be determined during the

upcoming Environmental Impact Statement (EIS) process which will look at station location alternatives. That EIS process, which has its public kickoff in February 2011, will follow a very prescriptive federal study process mandated under the National Environmental Policy Act (NEPA), and will take between two and three years to complete.

In addition to planning and engineering feasibility work that was completed over the past two years, the proposed Metrorail station was priced at a most probable construction cost of \$240 million (planning, engineering, environmental studies, other soft and hard costs), and then a financial feasibility study was undertaken to determine if there were sufficient revenues generated by Potomac Yard as it develops over the next few decades to cover debt service on a \$240 million borrowing. The goal was, and remains, having the finance plan for the Potomac Yard Metrorail station fully cover the costs of building and operating the station, with no negative fiscal impact on the City's General Fund in any year. The first part of the financial analysis was to structure the debt service on this large \$240 million borrowing with a 30-year amortization, and with a gradually increasing annual principal repayment. The analysis showed that in the early years of development, the net new tax revenues from new development would not likely be at a stage of generating sufficient revenues to cover debt service. Therefore, the planned debt issuance was restructured with interest capitalized in the first three years after the borrowing (generally during construction). This saved some \$35 million in the short term interest payments, but that then increased the total planned borrowing from \$240 million to \$275 million. This capitalized interest would need to be repaid over the balance of the remaining 27 years of bond principal amortization.

The contemplated revenues to repay the Metrorail station construction bond borrowing and station operating costs would come from three primary sources (Attachment B). First, net new taxes (i.e., gross taxes collected by the City less the cost of delivery of City and School services to new Potomac Yard residents and businesses) generated from new development and economic appreciation in Potomac Yard would be used as the base building block revenue source. Second, taxes generated by the creation of two Special Services Districts (Tier I and Tier II), each with a supplemental tax rate, would be a major funding source. Third, developer contributions – especially \$74 million from the owner/developer (RREEF) of North Potomac Yard – would be the final gap filler so that there would be sufficient revenues generated to fully cover the debt service on the \$275 million borrowing, as well as the costs of operating this new Metrorail station. Donated air rights by the developer of the southern portion of Potomac Yard (Pulte) to enable two Metrorail station pedestrian crossings of the railroad tracks also contributed to helping create a viable financing plan.

The Special Services District mechanism as a Potomac Yard Metrorail Station financing tool was contemplated by the City in 1999 when the central and southern portions of Potomac Yard and Potomac Greens were planned. Specific language about the contemplated tax district was included in the land use approvals. After the 1999 City land use decisions, the possibility of a special tax district was disclosed to buyers of property in Potomac Yard. This concept was mirrored in the 2010 land use approvals enacted by the City for North Potomac Yard. In 2010, the concept of how to finance the Metrorail Station became more refined. It was contemplated in June of 2010 that there would be two Special Services Districts (this is the legal terminology in the Virginia Code, these districts have been commonly termed “special tax districts”). A map of

these two previously proposed districts is included as Attachment A. The first or “Tier I Special Services District” would encompass North Potomac Yard (Landbay F) as well as Landbays G, H and the multi-family portion of Landbay I. These are generally the highest density landbays. In the financial modeling, a 20-cent per \$100 of valuation annual tax rate for the Tier I District (in addition to the City’s base real estate tax rate) was contemplated to start in 2011. A December, 2010 approval of the establishment of the Tier I District by Council is recommended, so the Tier I District is in place for all of calendar year 2011 and revenues can start to flow from this Tier I District to the Potomac Yard Metrorail Station Fund which will receive and disburse the monies. The actual rate for the Tier I District would not be set by Council until May when Council adopts the FY 2012 budget and property tax rates for 2011. The owners/developers of the properties within the proposed Tier I District have all agreed to the establishment of the Tier I District effective in 2011.

The boundaries of the proposed Tier I District (Attachment A) are the following: Four Mile Run from the western boundary of the CSX railroad track property to Jefferson Davis Highway; Jefferson Davis Highway from Four Mile Run to the future Bluemont Avenue; the future Bluemont Avenue from Jefferson Davis Highway to the future Main Line Boulevard; the future Main Line Boulevard from the future Bluemont Avenue to northern boundary of Landbay I; the northern boundary of Landbay I from the future Main Line Boulevard to the western boundary of the CSX railroad track property; the western boundary of the CSX railroad track property from the northern boundary of Landbay I to Four Mile Run.

The Tier II Special Service District (which is not proposed for creation at this time, but depicted for information purposes in Attachment A) would include Landbay A (Potomac Greens), the townhouse/loft portions of Landbay I, as well as Landbay J. It was proposed in the initial Metrorail station financing proposal last spring, that this Tier II District would have a 10-cent per \$100 of valuation tax rate, with the tax rate not being levied until 2016 when the Potomac Yard Metrorail station is projected to open. While the property owner/developer on the west side of the Metrorail tracks finds this proposal acceptable, many of the residential property owners in Potomac Greens have raised concerns and/or objections to the proposed Tier II District. Discussions have occurred with the property owners and their representatives over the last nine months, and a well-attended community meeting was held on November 30. At that meeting, alternative options to the proposed district and rate were discussed. These options are being worked on by staff at this time. While the Tier II District was not proposed to have the 10-cent levy start until 2016, it is desired by both Pulte and the Potomac Greens residents to have Council make a decision in the short term, so existing and future home buyers will know what they will be paying, or not paying, in the future. It is contemplated that a decision on the Tier II district would be scheduled for Council consideration in the first quarter of 2011.

It is planned that the Tier I tax of 20-cents would be levied by Council for 2011, with the first real estate payment due with the June real estate tax bill. The funds collected can only be used for the purposes the District was created which would be to help pay for studies, as well as hard and soft costs related to planning, designing, engineering and constructing the Potomac Yard Metrorail station. This would include related expenses such as equipping and operating the station, as well as paying for any necessary environmental remediation or mitigation (which the EIS will help determine). Also, as per the Council resolution adopted at the November 13, 2010

Public Hearing, a permitted expense would also be a standalone pedestrian bridge that is planned to be constructed across the CSX railroad tracks and the Metrorail tracks to connect the east side and west side of Potomac Yard in the event Council decides in the future not to build the proposed Potomac Yard Metrorail station. This pedestrian bridge crossing is now contemplated to be incorporated into the proposed Potomac Yard Metrorail Station structure.

All Potomac Yard Metrorail station revenues (special service district revenues, net new tax revenues, developer contributions, etc.) will be separately accounted for and deposited in a Potomac Yard Metrorail Station Fund. It is planned that an annual Fund report would be produced and publically issued, so that a transparent and clear accounting of all Fund revenues and expenses can be made available to all interested parties. It would also be planned that at the end of the 30-year planned final payment of debt service on the Metrorail station bonds, that the Special Services Districts (both Tier I, and Tier II if created) would be terminated.

The ordinance, which satisfies State Code requirements and implements the Tier I Special Services District, is included as Attachment C. The ordinance also directs staff to bring back a City Code amendment to codify the ordinance within the City Code. This will make it simpler for property owners and staff to find and locate the tax district requirements in the future.

**FISCAL IMPACT:** In the first year of the Tier I District, at the planned 20-cent rate, the expected revenues are projected at about \$0.5 million. As development and appreciation occur over the next few decades that Tier I District tax receipts amount at the 20-cent rate will grow substantially to approximately \$2.5 million annually in 10 years, \$6 million annually in 20 years and \$12 million annually in 30 years. The actual tax revenues will vary depending on the actual rate of development and real estate appreciation over this multiple decade period.

**ATTACHMENTS:**

Attachment A: Tier I Special Services District Boundaries

Attachment B: Potomac Yard Metrorail Station Sources and Uses

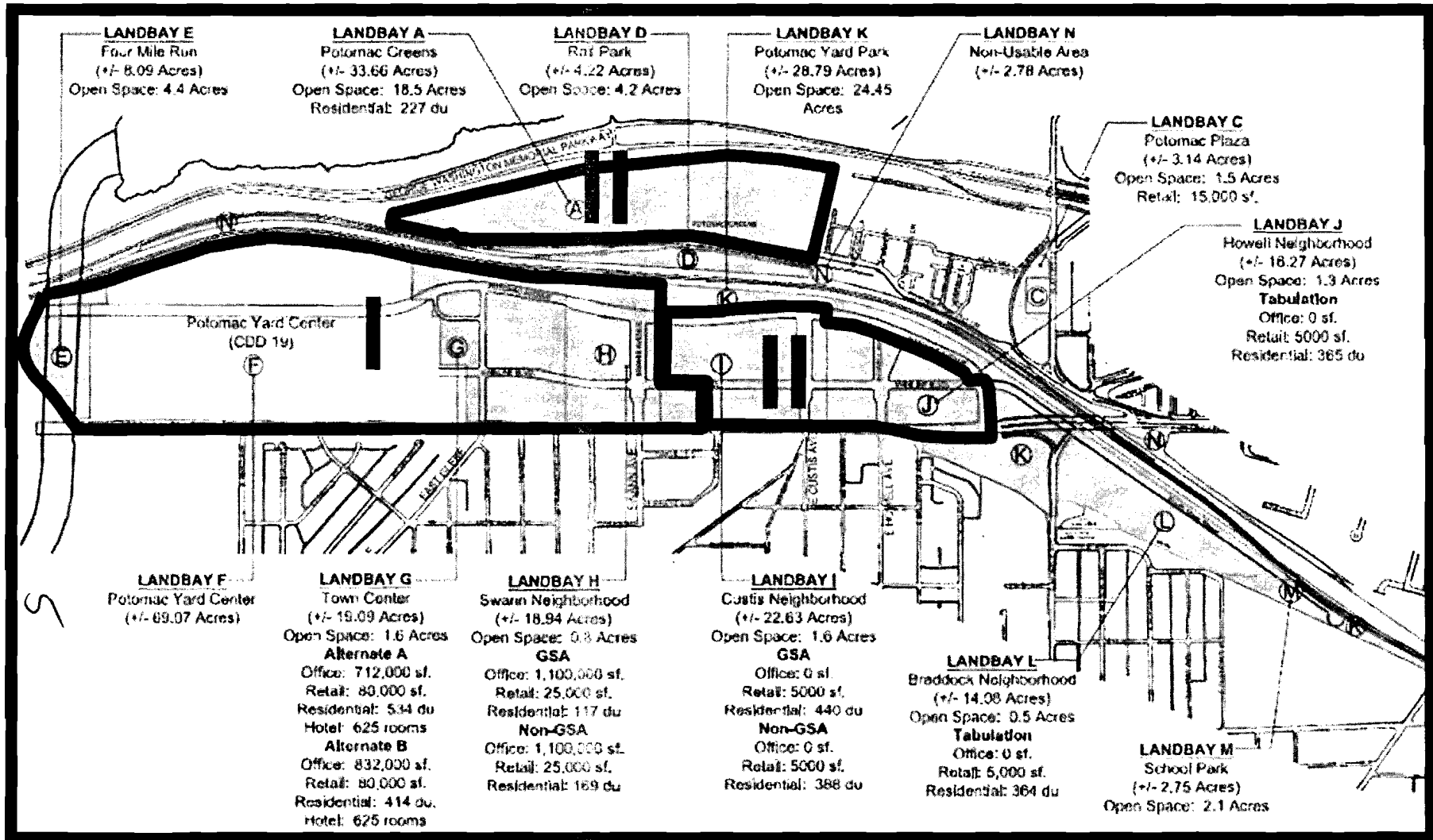
Attachment C: Proposed Tier I Potomac Yard Metrorail Station Special Services District Ordinance

**STAFF:**

Mark Jinks, Deputy City Manager

Rich Baier, Director, T&ES

# Proposed Special Services Districts

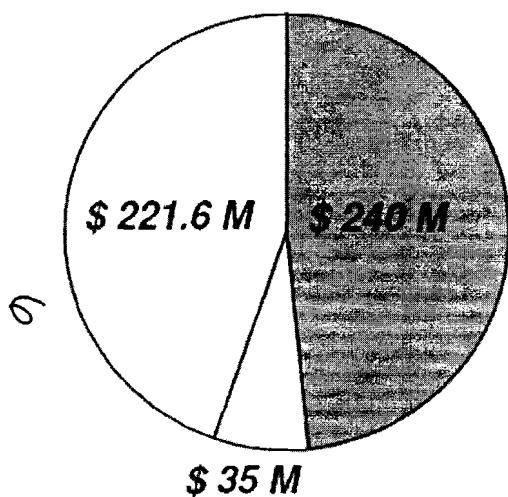


Potomac Yard Special Services Districts

# Proposed Metrorail Station Financing Plan

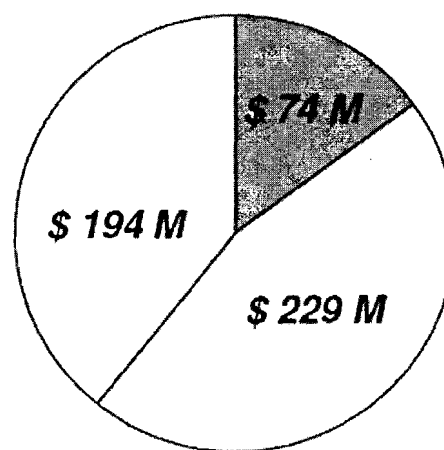
Planned Uses and Sources of Funding  
Total \$496.6 Million

Uses



- ▣ Studies, Design, Construction
- ▣ Capitalized Interest
- ▣ Debt Service Interest

Sources



- ▣ Developer Contributions
- ▣ Net New Tax Revenues
- ▣ Special Tax District Revenues

Potomac Yard Special Services Districts

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Introduction and first reading: 12/14/10  
Public hearing: 12/18/10  
Second reading and enactment: 12/18/10

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to authorize creation of Tier I Potomac Yard Metrorail Station Special Services District, pursuant to Va. Code Section 15.2-2400, et seq.

Summary

The proposed ordinance authorizes and creates the Tier I Potomac Yard Metrorail Station Special Services District.

Sponsor

N/A

Staff

James Hartmann, City Manager  
Mark Jinks, Deputy City Manager  
Richard J. Baier, P.E., LEED, AP, Director, T&ES  
Christopher P. Spera, Deputy City Attorney

Authority

§15.2-2400, et seq., Code of Virginia

Estimated Costs of Implementation

None

Attachments in Addition to Proposed Ordinance and its Attachments (if any)

None

ORDINANCE NO. \_\_\_\_\_

AN ORDINANCE to authorize creation of Tier I Potomac Yard Metrorail Station Special Services District, pursuant to Va. Code Section 15.2-2400, et seq.

WHEREAS, pursuant to Va. Code Section 15.2-2400, et seq., the City of Alexandria is authorized to establish service districts for portions of the City for the purpose of providing additional, more complete or more timely governmental services than may be needed or desired in the remainder of the City; and

WHEREAS, based upon the development approvals previously recommended by the Planning Commission and passed by City Council, as well as other approvals passed by City Council related to the Potomac Yards area in the City, the City Council has determined that a need exists to fund the research, planning, approvals and construction of a Metro Station as a feature of Potomac Yards, as well as other infrastructure related thereto, through the creation of a service district to be known as the Tier I Potomac Yard Metrorail Station Special Services District (hereafter the "PYM-I Service District");

NOW, THEREFORE, THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That the PYM-I Service District is hereby established, with the boundaries thereof and parcels included therein as described in the notice previously published pursuant to Va. Code Section 15.2-2400 and -2402, which is attached hereto as Exhibit A.

Section 2. That the PYM-I Service District is established for the purpose of providing facilities and services related to the construction of the Potomac Yard Metro Station, including, but not limited to, studies, assessments and analysis of environmental and other impacts, any required local, state or federal governmental approvals, environmental preservation and mitigation, acquisition of real property or temporary and permanent easements therein, temporary or permanent relocation of roadways, rail lines or other infrastructure, and construction of the station, rail crossings, bridges, walkways and any other related infrastructure. The City will use revenues from the PYM-I Service District to construct a pedestrian bridge over the existing rail lines from Potomac Greens to Potomac Yards, whether or not the other infrastructure referenced herein is completed.

Section 3. That the planned facilities may be constructed and planned services provided by the City alone, in partnership with or by the Washington Metropolitan Area Transit Authority, via contractors or other third parties, subject to applicable management and oversight by the City pursuant to appropriate governing contracts, leases, or other agreements.



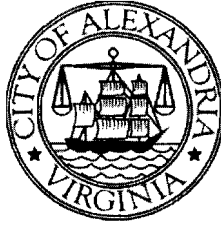
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2 Section 4. That the benefits to be expected from the creation of the PYM-I Service  
3 District and the provision of the aforesaid facilities and services within said District include,  
4 without limitation, increased and more timely transit capacity, minimizing impact on neighboring  
5 areas, increased quality of life for area residents, reduction in vehicular traffic and the creation of  
6 a vibrant, dynamic urban mixed-use development within Potomac Yards.  
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8 Section 5. That staff is directed to promptly prepare an appropriate  
9 implementation ordinance codifying the PYM-I Service District in Title 3 of the City Code.  
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11 Section 6. That this ordinance shall become effective upon the date and at the  
12 time of its final passage.  
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14 WILLIAM D. EUILLE  
15 Mayor  
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17 Introduction: 12/14/10  
18 | First Reading: 12/14/10  
19 Publication:  
20 Public Hearing:  
21 Second Reading:  
22 Final Passage:



A Public Hearing will be held by the City Council of the City of Alexandria, Virginia, in the Council Chambers, City Hall, City of Alexandria, Virginia, on Saturday, December 18, 2010, at 9:30 a.m., or as soon thereafter as may be heard on the hereinafter described ordinance.

AN ORDINANCE of the City of Alexandria, Virginia, authorizing and establishing the Tier I Potomac Yard Metrorail Station Special Services District effective January 1, 2011. The District's boundaries are proposed to be Four Mile Run from the western boundary of the CSX railroad track property to Jefferson Davis Highway; Jefferson Davis Highway from Four Mile Run to the future Bluemont Avenue; the future Bluemont Avenue from Jefferson Davis Highway to the future Main Line Boulevard; the future Main Line Boulevard from the future Bluemont Avenue to northern boundary of Landbay I; the northern boundary of Landbay I from the future Main Line Boulevard to the western boundary of the CSX railroad track property; the western boundary of the CSX railroad track property from the northern boundary of Landbay I to Four Mile Run.

The Potomac Yard real property parcels within this proposed Tier I Special Services District would be parcels: 524 CPYR Inc., 525 CPYR Inc., 501 (part), 502, 503, 504, 505, 506 (part), 507 (part), 512 (part) and 523. The public is advised that amendments or additions may be made to the proposed ordinance without further publication.