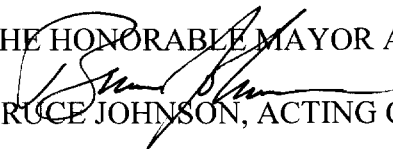


City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 19, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM:  BRUCE JOHNSON, ACTING CITY MANAGER

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

ISSUE: How to finance the proposed Potomac Yard Metrorail station; should a Tier II Special Services District be created and, if so, what would be its geographic area and tax rate.

RECOMMENDATION: That City Council introduce the ordinance establishing the Tier II Potomac Yard Metrorail Station Special Services District (which does not include Potomac Greens), pass it on first reading, and schedule it for public hearing, second reading and final passage on Saturday, June 25.

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

(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 2). 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.

Special Services District: 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 in closing documents to buyers of property in Potomac Yard. This possibility was not widely known by Potomac Greens homeowners when they purchased their homes.

The tax district 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 proposed districts is included as Attachment 2. The first or "Tier I Special Services District," which City Council approved in December of 2010, encompasses 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. The December 2010 establishment of the Tier I District by was approved by Council, so the Tier I District was 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 planned rate for the Tier I District was set by Council in May when Council adopted the FY 2012 budget and property tax rates for 2011.

The boundaries of the Tier II District shown on Attachment 1 are described in Exhibit A to Attachment 3. The Tier II District would encompass all of Landbay I not in the Tier I District and all of Landbay J. In general, the Tier II District is the southern part of Potomac Yard not including the development sites south of the Monroe Avenue Bridge. The proposed Tier II District would not include Potomac Greens.

Many of the residential property owners in Potomac Greens have raised specific objections to the proposed Tier II District. The key points raised by Potomac Greens residents have been:

- Metrorail has historically been paid by all City taxpayers, not just those living close to a station.
- Potomac Greens residents were not here in 1999 to participate in the decision which contemplated a special tax district, nor was the tax district in place when they purchased their homes.
- Disclosure of the possibility of a tax district in homeowners' settlement documents was not widely known.
- Because Potomac Greens homes will eventually appreciate because of the adjacency of a Metrorail station, the average Potomac Green homeowner will pay approximately \$800 more per year already in City real estate taxes (assumes 10% appreciation due to adjacency to a Metrorail station). This will generate about \$0.2 million in revenue that will be directed to the Potomac Yard Metrorail Station fund.
- The adjacent Old Town Greens is not in the tax district.
- The recent two-cent increase in the City's real estate tax rate means that all City residents, including those in Potomac Greens, will be paying higher taxes for transportation purposes.

Staff searched for other tax or financial options that did not impact the City's General Fund or dedicated transportation funding in lieu of the Tier II special service tax, but did not identify any option other than a tax district that would be viable. In large part, this is because this proposed district is almost an entirely residential area and does not contain much in the way of commercial properties. Also, all net new tax revenues from the new development in Potomac Yard have already been earmarked to pay for the Metrorail Station.

Also, as per the Council resolution adopted at the November 13, 2010, Public Hearing, a permitted expense of the Tier I and Tier II Districts 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. One option to close the \$0.2 million funding gap caused by the exclusion of the Potomac Greens from the Tier II District could be to eliminate the pedestrian bridge and/or east side Metrorail Station access. With the funding gap not significant in regards to total estimated Metrorail station construction costs, and with no other known material changes in projected station costs and revenues, this option is not recommended.

The attached Tier II ordinance establishes a cap of 10-cents. Having a cap set by ordinance would be consistent with the Tier I ordinance where a 20-cent cap was established. The Tier II tax would also not be levied until January 1 of the calendar year after the Metrorail Station opens. With the earliest the station would open estimated as 2016, this means the Tier II tax would be effective in 2017 at the earliest.

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) would be terminated.

The ordinance, which satisfies State Code requirements and implements the Tier II Special Services District, is included as Attachment 3. 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 II District tax levy (2017 or later), at the planned 10-cent rate, the expected revenues in 2011 dollars are projected at about \$0.4 million. As appreciation of real estate occurs over the 30-year life of the repayment of the Metrorail station bond financing, this tax revenue total grows. The actual tax revenues will vary depending on the actual rate of development and real estate appreciation over this multiple decade period. A funding source to close the \$0.2 million annual revenue gap created by the exclusion of Potomac Greens would need to be identified by 2017.

ATTACHMENTS:

Attachment 1: Tier II Special Services District Boundaries

Attachment 2: Potomac Yard Metrorail Station Sources and Uses

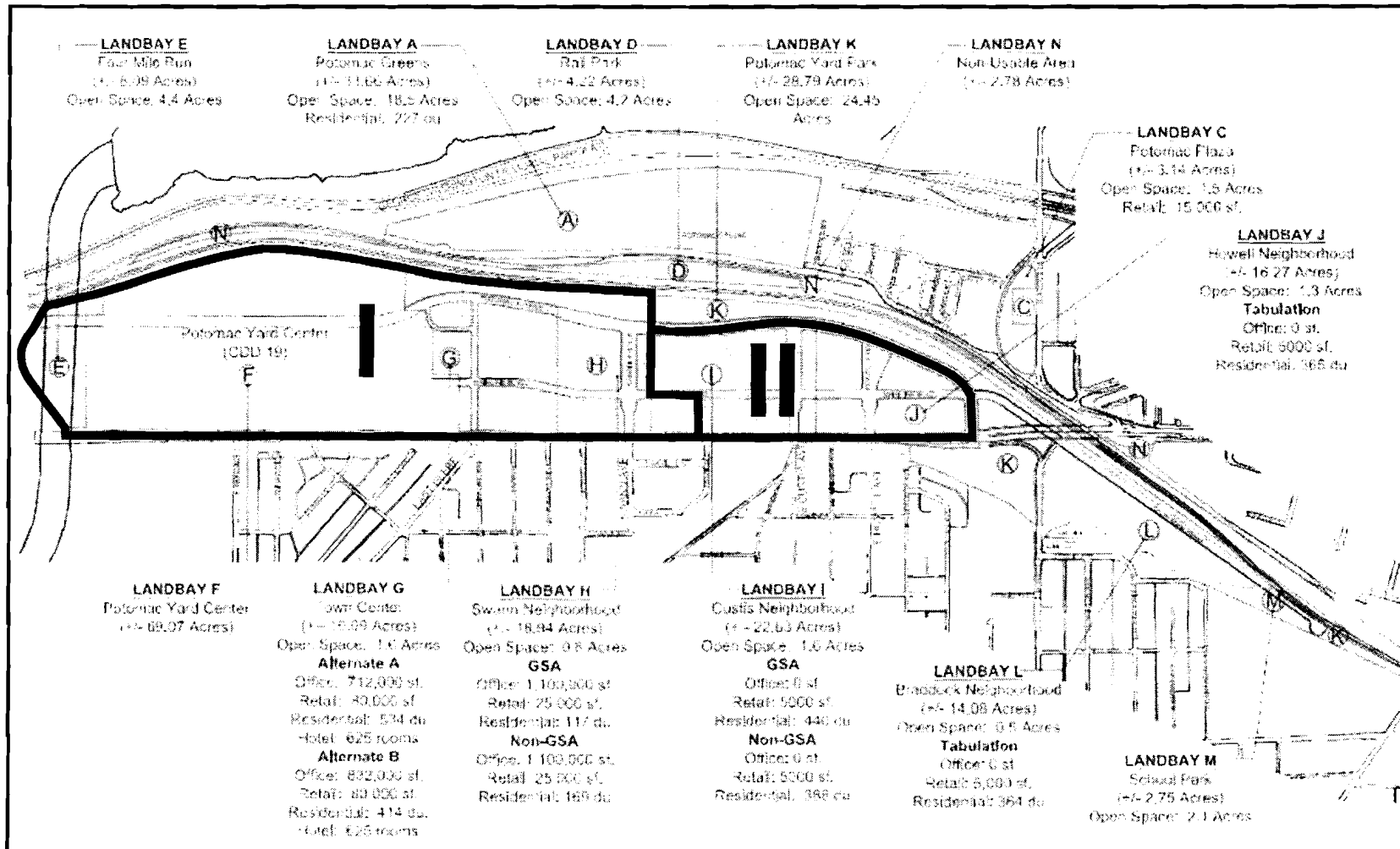
Attachment 3: Proposed Tier II Potomac Yard Metrorail Station Special Services District Ordinance

STAFF:

Mark Jinks, Deputy City Manager

Rich Baier, Director, T&ES

Proposed Special Services Districts

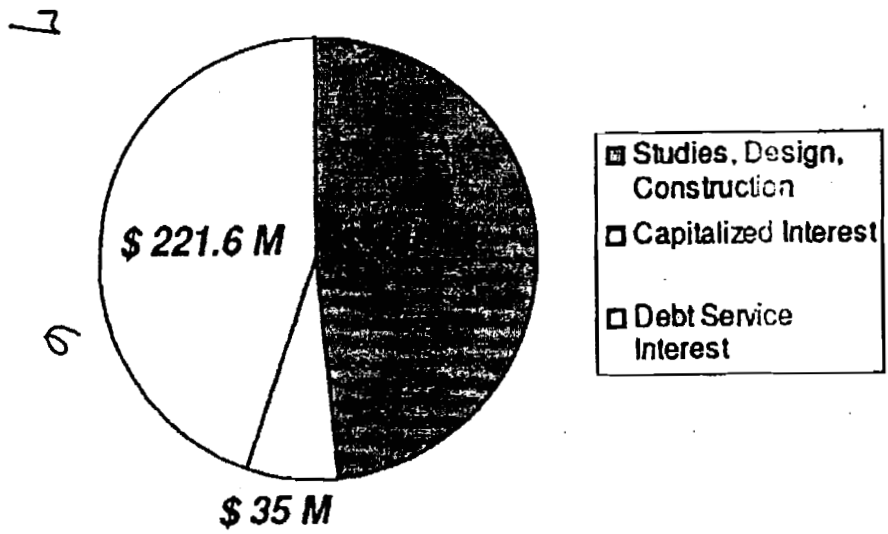


Potomac Yard Special Services Districts

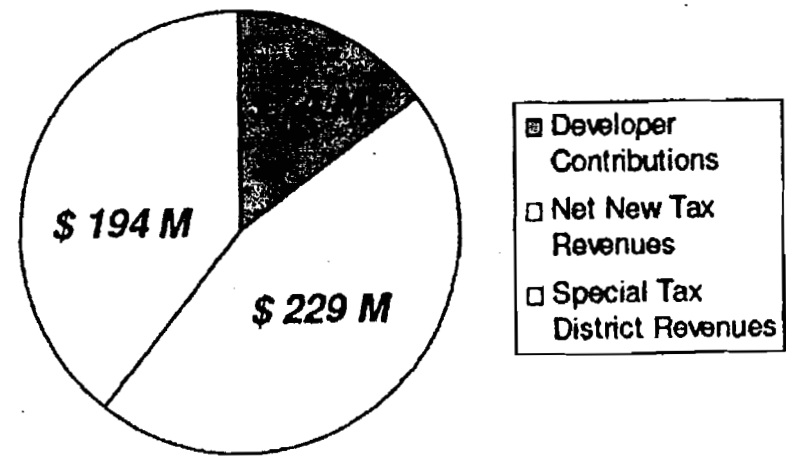
Proposed Metrorail Station Financing Plan

Planned Uses and Sources of Funding
 Total \$496.6 Million

Uses



Sources



Introduction and first reading: 5/24/11
Public Hearing: 6/25/11
Second reading and enactment: 6/25/11

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to authorize creation of Tier II 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 II Potomac Yard Metrorail Station Special Services District

Sponsor

N/A

Staff

Bruce Johnson, Acting 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

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ORDINANCE NO. _____

AN ORDINANCE to authorize creation of Tier II 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 Metrorail 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 II Potomac Yard Metrorail Station Special Services District (hereafter the "PYM-II Service District");

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

Section 1. That the PYM-II 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, with a service tax rate not to exceed ten cents per one hundred dollars of assessed value exclusive of all other applicable taxes. This tax is not to be applicable until January 1 of the first calendar year after the Potomac Yard Metrorail Station is open to the public for revenue service.

Section 2. That the PYM-II 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-II 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.

1 Section 4. That the benefits to be expected from the creation of the PYM-II Service
2 District and the provision of the aforesaid facilities and services within said District include,
3 without limitation, increased and more timely transit capacity, minimizing impact on
4 neighboring areas, increased quality of life for area residents, reduction in vehicular traffic and
5 the creation of a vibrant, dynamic urban mixed-use development within Potomac Yards.
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7 Section 5. That staff is directed to promptly prepare an appropriate implementation
8 ordinance codifying the PYM-II Service District in Title 3 of the City Code.
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10 Section 6. That this ordinance shall become effective upon the date and at the time of its
11 final passage.
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13 WILLIAM D. EUILLE
14 Mayor
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17 Introduction: 5/24/11
18 First Reading: 5/24/11
19 Publication:
20 Public Hearing:
21 Second Reading:
22 Final Passage:
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9 A Public Hearing will be held by the City Council of the City of Alexandria, Virginia, in the
10 Council Chambers, City Hall, City of Alexandria, Virginia, on Saturday, June 25, 2011, at 9:30
11 a.m., or as soon thereafter as may be heard on the hereinafter described ordinance.

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AN ORDINANCE of the City of Alexandria, Virginia authorizing and
establishing the Tier II Potomac Yard Metrorail Station Special Services District
effective July 1, 2011.

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The District's area is proposed to include all of Landbay J and the area of
Landbay I not included in the Tier I Potomac Yard Metrorail Station Special
Services District. The Tier II District's boundaries are proposed to be Jefferson
Davis Highway from the future Bluemont Avenue to Potomac Avenue; Potomac
Avenue from Jefferson Davis Highway to the northern boundary of Landbay I;
the northern boundary of Landbay I from Potomac Avenue to Main Line
Boulevard; Main Line Boulevard from the northern boundary of Landbay I to the
future Bluemont Avenue; and Bluemont Avenue from Main Line Boulevard to
Jefferson Davis Highway.

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The Potomac Yard real property parcels within this proposed Tier II Special Services District
would be parcels: 506 (part), 507 (part), 508, 509, 510 and 511. The public is advised that
amendments or additions may be made to the proposed ordinance without further publication.

16

5-24-11

Jackie Henderson

From: Rak, Jonathan P. <jrak@mcguirewoods.com>
Sent: Tuesday, May 24, 2011 3:44 PM
To: Jackie Henderson
Cc: Mark Jinks
Subject: Letter to Council regarding docket item 16
Attachments: 3970_001.pdf

Jackie,

I have attached a letter to Council regarding docket item 16 for tonight's meeting. Thank you.

Jonathan

Jonathan P. Rak
McGuireWoods LLP
1750 Tysons Boulevard, Suite 1800
McLean, Virginia 22102
703-712-5411 Direct Dial
703-712-5231 Direct Fax
jrak@mcguirewoods.com

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McGuireWoods LLP
1750 Tysons Boulevard
Suite 1800
McLean, VA 22102-4215
Phone: 703.712.5000
Fax: 703.712.5050
www.mcguirewoods.com

Jonathan P. Rak
Direct: 703.712.5411

McGUIREWOODS

jrak@mcguirewoods.com
Direct Fax: 703.712.5231

May 24, 2011

Honorable Mayor William D. Euille and
Members of the City Council
City of Alexandria
City Hall
301 King Street
Alexandria, Virginia 22314

**Re: Tier II Potomac Yard Metrorail Station Special Services District;
Docket item 16, May 24, 2011**

Dear Mayor Euille and Members of Council:

I am writing on behalf of CPYR, Inc., the owner of Potomac Yard Land Bay F, to support the adoption of an ordinance establishing the Tier II tax district with some modification. The Memorandum of Understanding Between the City and CPYR regarding Potomac Yard Metrorail Station Financing ("MOU") identifies the proposed tax district as one of the sources of revenue for the Metrorail Station funding.

We request that the tax district be established in accordance with section 2.b. of the MOU, which states:

Potomac Greens, and portions of Potomac Yard landbays other than Landbay F which are to be developed for single family attached development (or alternatively, areas within such other land bays zoned for lower density residential and at a further distance from the Metro Station) will be included in a second Special Tax District when established . . .

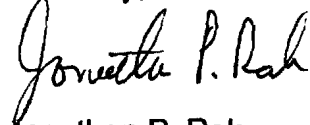
The proposed exclusion of Potomac Greens would also be inconsistent with the conditions of the Potomac Yard CDD and the Potomac Greens DSUP.

We strongly support the Council's goal of building a Potomac Yard Metrorail station and are concerned that excluding any of the planned sources of funding affects the likelihood of achieving that goal.

May 24, 2011
Page 2

Thank you for considering our request and for your continued support of the Potomac Yard Metrorail Station.

Sincerely,

A handwritten signature in black ink that reads "Jonathan P. Rak". The signature is written in a cursive style with a large, looped initial "J".

Jonathan P. Rak

cc: Pamela Boneham
Michael Nigro
Ed Woodbury

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