City of Alexandria

MEMORANDUM

DATE: MAY 28, 2010

TO: CHAIRMAN AND MEMBERS, PLANNING COMMISSION

FROM: MARK JINKS, DEPUTY CITY MANAGER mJ

SUBJECT: POTOMAC YARD METRORAIL STATION PROJECTIONS

As requested by the Planning Commission at its May 4 meeting, when it discussed the subsequently approved the North Potomac Yard Small Area Plan, City staff requested that Parsons Brinkerhoff Consulting, which developed the Potomac Yard Metrorail Station financing projection model, run two more analyses with more severe assumptions. The model was also updated to reflect the 2010 real estate tax rate adopted by Council.

The four cases that were run were:

1. **Development Base Case** with a 30-year build out of all of Potomac Yard by 2040,

2. **Slower Development Case** with a 33-year build out of Potomac Yard by 2043, but no development in Landbay F until 2017,

3. **Slower and Less Development Case** with no development in Landbay F prior to 2020, and then just 80% build out achieved by 2043.

4. **Accelerated Development Case** with1.4 million square feet of development in Landbay F by 2017, full build of Landbay F by 2032, and other landbay full buildout by 2040.

The varied build out assumptions for these cases are depicted on Attachment A, and while development cycles are likely to cause more development in some years and less in others, the end result will likely even out over time. This straight line approach to modeling recognizes that projections of development cycles (timing, intensity and length cycles) are subjective, and that over time the annual results often revert to a mean trend line.

These projections assume the agreed-upon to Landbay F contribution of $10 per square foot (in 2010 dollars) for 4.9 million feet of development in Landbay F. The projections do not include the $32 million shortfall guarantee which the developer of Landbay F has agreed to provide.

How that shortfall guarantee reduces or eliminates the projected gaps between revenues and project debt service is detailed below.

1. **Development Base Case**: The results (Attachment B) indicate that this scenario produces a gap of $5.9 million in the early years after station completion. The breakeven year is 2019. This small $5.9 million gap would be 100% closed by the shortfall guarantee.

2. **Slower Development Case**: The results (Attachment C) indicate that this scenario produces a gap of $8.8 million in the early years after station completion. The breakeven year is 2022. This somewhat larger gap would be 100% closed by the shortfall guarantee.

3. **Slower and Less Development Case**: The results (Attachment D) indicate that this scenario produces a gap of $52.8 million. The breakeven year is 2026. This much larger gap would be 61% narrowed by the shortfall guarantee, and leave $20.8 million remaining to be covered by the City over a 10-year period.

4. **Accelerated Development Case**: The results (Attachment E) indicate that there is no gap between projected revenues and debt service. In fact the projections indicate a $58.6 million surplus in the first 10 years. This underscores the value of allowing a certain amount of development to be permitted to occur prior to the Metrorail station construction starting because not only does the tax revenue get generated earlier, but also the $10 per square foot developer contribution gets paid earlier.

In any development scenario, the projections of the Development Base Case and the Slower Development Case represent the best informed assumptions. However, they are projections of future events, with reality certainly to be different in some way. This means that these two projection models could be too optimistic or too pessimistic, which was the impetus at the request of Planning Commission members for the creation of the Slower and Less Development Case and the Accelerated Development Case. These two new cases show the relative risks and rewards if reality varies from the best informed assumptions.

Risk Mitigation: For the City to be protected on the down side Slower and Less Development Case scenario (above and beyond the application of the $32 million shortfall guarantee), there are a number of risk mitigation factors that the City can undertake to protect itself on the downside. These include factors that can be taken singly or in combination:

1. Not issuing the bonds to finance the Metrorail station nor authorizing the "triggering event" (i.e., construction of the station in 2014 (at the earliest) until projections are rerun and the economic and development situation present at that time is carefully reassessed).

2. While the adoption of the North PotomacYard Small Area Plan and the CDD for Landbay F indicate intent, it will be at the City's discretion to determine in 2014 or later if it wants to proceed to undertake the obligation, risks and rewards that the financing of a new Metrorail station brings. If development is proceeding slowly, then the City could

delay the construction of the Metrorail station until development was at a level that makes the risks lower to the City. A delay will increase the cost of the station due to construction inflation, but also increase the amount of revenues being generated annually, as well as collected and reserved in the Station Fund.

3. Judging the plans of the developers of all landbays (RREEF/McCaffrey, MRP, PYD) plans and their financial and organizational ability and intent to deliver by assessing those factors prior to the triggering event. In particular, the status of RREEF/McCaffrey is more important given their agreed upon contribution of $10 per square foot towards the Metrorail station.

4. Assessing the development progress and market demand that is evident by development activity that occurs between 2010 and 2014. If development activity evidenced by construction, sales and leasing is slow that will help project future development rates. If activity is moving at a fast pace that will also help project future development rates.

5. The financing plan can be restructured with the payment of bond principal set at a lower payback rate, with the issuance of variable rate bonds, or with other financing structures that would have the effect of reducing early year debt service.

6. Federal and State transit aid is uncertain, but likely in some amount. Since it is not built into the projections, any amounts which may be known and more certain by 2014 can potentially used to help close a projected gap.

7. If in 2014 the current $32 million shortfall guarantee appears not to be able to cover any projected gap, then discussions and renegotiations with the owner of Landbay F would need to occur. Given the current level of developer contributions, increasing that amount may not be possible.

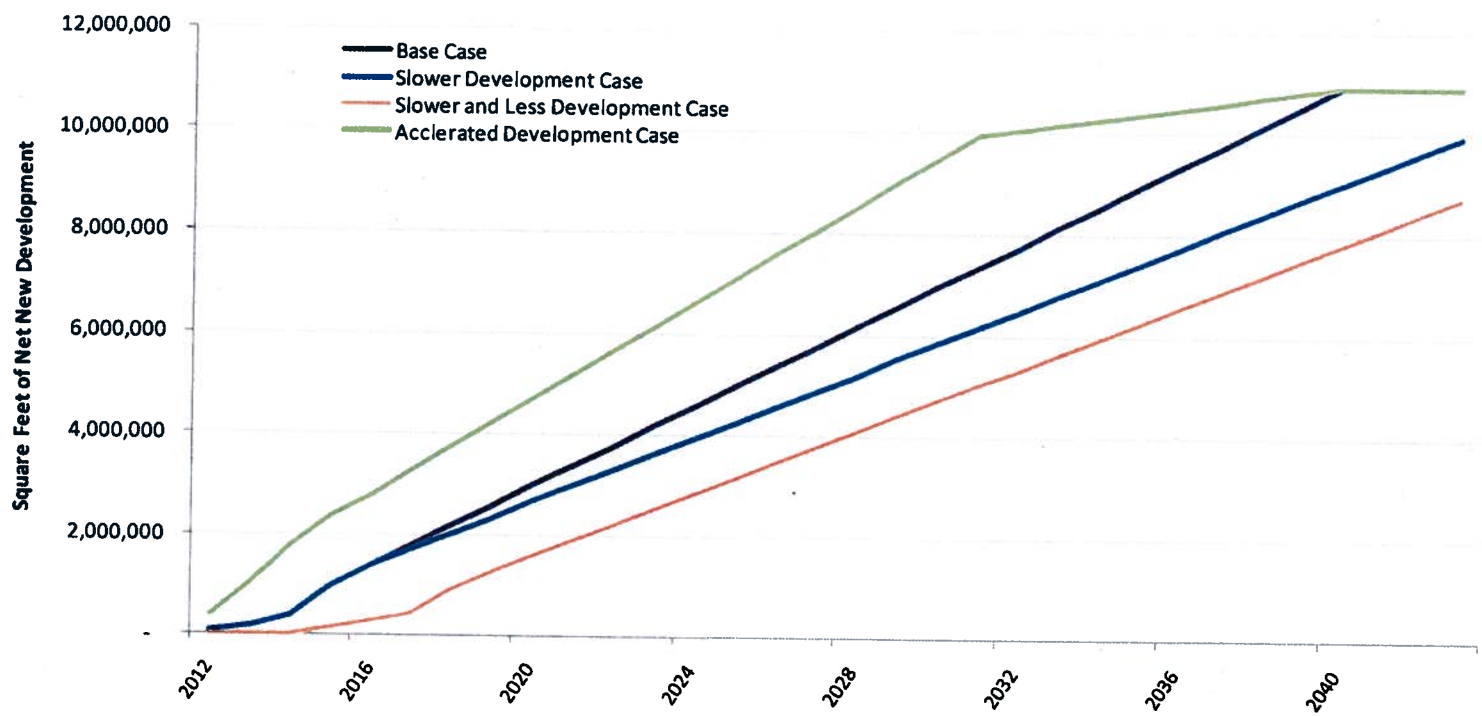
8. The City could decide to plan to cover the projected shortfall guarantee from other City sources, but given the City fiscal status at that time, this may or may not be possible.

In the end, one can conclude that the projected gaps are manageable by the utilization of the shortfall guarantee, as well as implementing, if needed, one or more of the eight risk mitigation options detailed above. Most importantly, with the final decision on building the station not being made until 2014 at the earliest, there will be time to reassess the situation, as well as to incorporate into that reassessment updated data and knowledge (taxes generated, actual development status, refined station costs, etc.). The Memorandum of Understanding, negotiated with and agreed to by the developer and the City, recognizes that if "material adverse changes occur" that the terms and conditions of the Metrorail financing would need to be renegotiated. Finally, the agreement does not bind the City to finance and construct the station.

Attachments

Attachment A

Comparison of Cases Build Out



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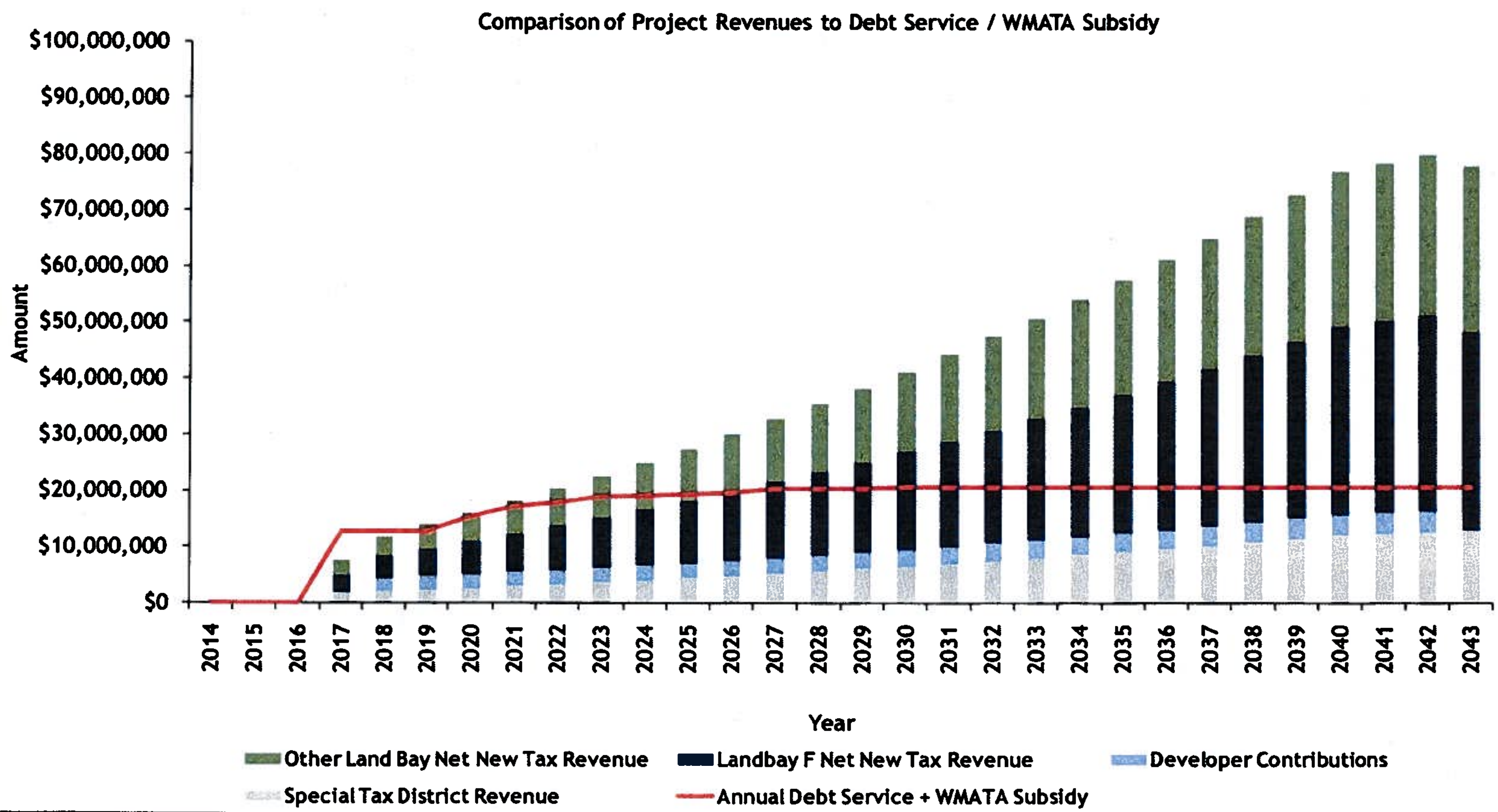
Attachment B

Base Case Summary

Key Metrics

- Required Bond Issuance: **$275 million**
- Size of Funding Gap: **$5.9 million**
- Breakeven Year: **2019**
- Maximum Annual Debt Service Payment: **$19.8 million**

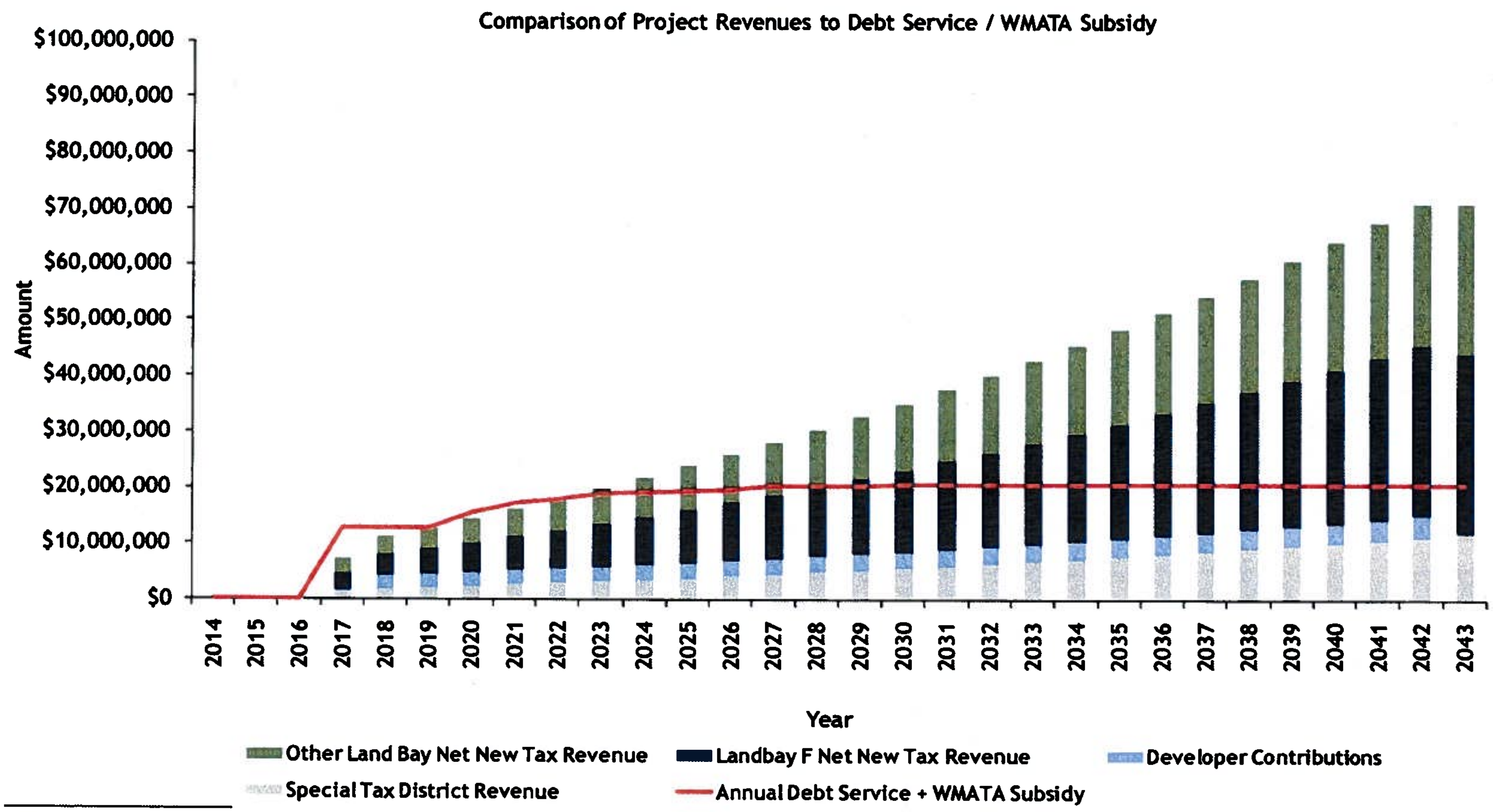


Attachment C

Slower Development Case

Key Metrics

- Required Bond Issuance: **$275 million**
- Size of Funding Gap: **$8.8 million**
- Breakeven Year: **2022**
- Maximum Annual Debt Service Payment: **$19.8 million**



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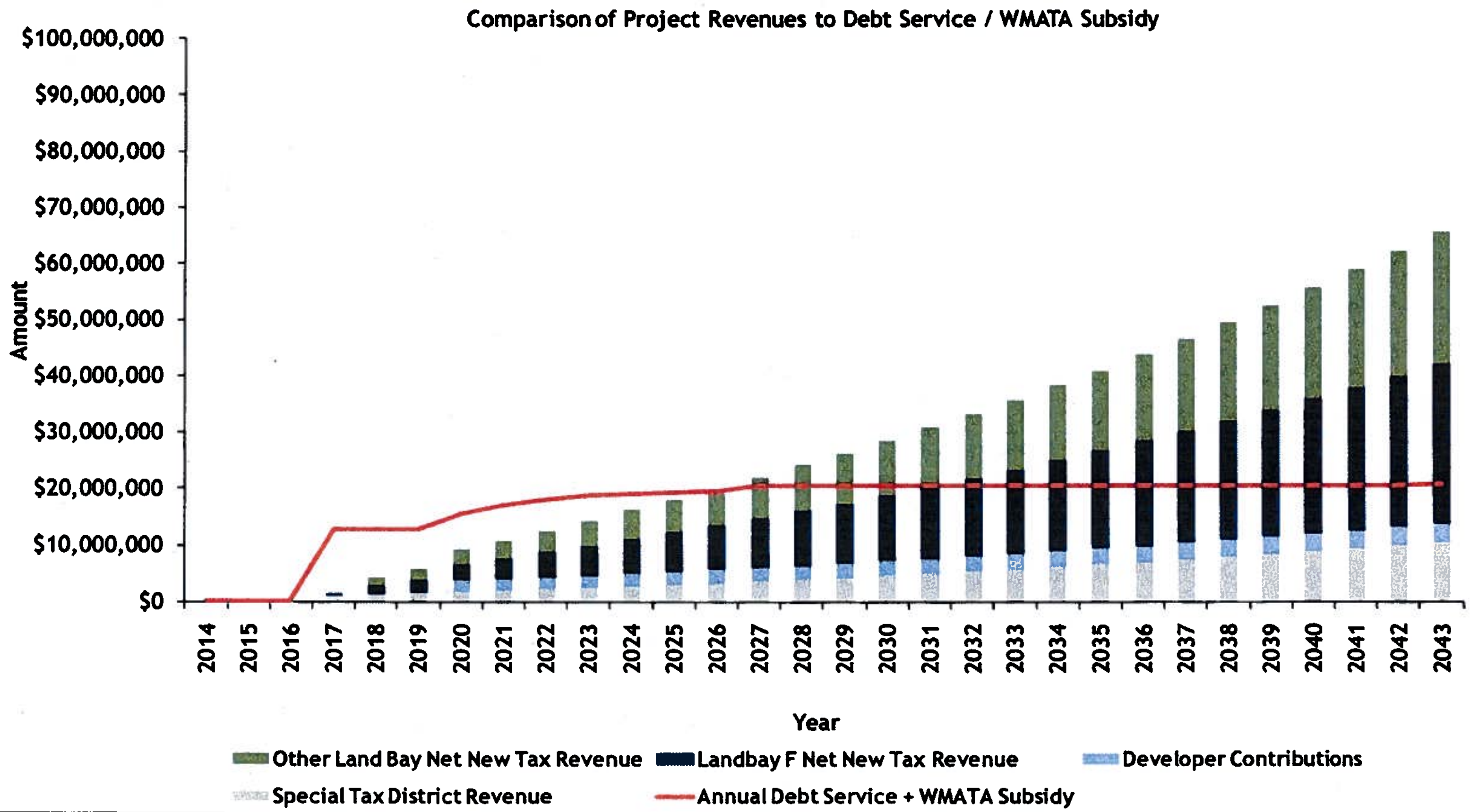
Attachment D

Slower and Less Development Case

Key Metrics

- Required Bond Issuance: **$275 million**
- Size of Funding Gap: **$52.8 million**
- Breakeven Year: **2026**
- Maximum Annual Debt Service Payment: **$19.8 million**



Attachment E

Accelerated Development Case

Key Metrics
- Required Bond Issuance: $275 million
- Size of Funding Gap: No Gap
- Breakeven Year: 2017
- Maximum Annual Debt Service Payment: $19.8 million