

City Administration's Context for Navy Hill Commission Report

The City's Administration appreciates the advisory role performed by the volunteer Navy Hill Commission to, "validate the assumptions, projections, costs, and benefits of the [Navy Hill] development contemplated by the Ordinances and the likely impact of the development on the City."

The Navy Hill project is unlike any other in the City of Richmond's history as it provides a large-scale solution to comprehensively redevelop City-owned property in an underperforming area of Downtown. Navy Hill is a public-private partnership with the construction of a publicly-owned and publicly-financed arena, sale of city-owned real estate for private development, and the contractual requirement of the private developer to deliver a wealth of community benefits which come to the City of Richmond at a cost to the developer of \$500 million to \$750 million. These community benefits provide solutions to certain challenges that the City has and continues to aggressively work to improve: fiscal, economic growth, public infrastructure, affordable housing, job creation, transit, tourism growth, minority business participation, and more.

Throughout the Navy Hill Commission's advisory process, the Administration, the City Attorney's Office and their outside counsel (Orrick), the City's financial advisor (Davenport), and the Navy Hill development team sought to proactively engage the Commission to provide objective and factual information on the proposed project. Representatives from the Administration, the City's financial advisor, and the Navy Hill Development team were present at every public meeting. The same representatives provided volumes of information to the Commission before, during, after, and in-between the public meetings. In addition, as referenced by members of the Commission, they had the benefit of the information presented to City Council during each of the City Council work sessions. It should also be noted as several Commission members have pointed out, the timeline, complex nature of the project, and other factors impacting the Commission's work did not allow all members of the Commission the opportunity to fully develop and command an understanding of the project. This seemingly contributes to their collective analysis of the project being inconclusive as noted by the fact that ***the majority of the Commission members characterized 62.5% of the Findings/Issues they were asked to vote on as insufficient information, no position, not validated due to insufficient information, or lack of a majority position.***

The objective of the following sections is to provide context for certain main themes found in the Commission's report. In particular, a number of facts were offered, shared or presented to the Commission by City Administration which do not appear in the Commission's final report. It is not clear how these materials were incorporated, if at all. Therefore, as previously shared with the Commission and/or City Council, the following are clarifications of certain items that were identified as "red" or "yellow" in the report. With the work of the City's Planning Commission and the Navy Hill Commission now complete, the Administration looks forward to working with City Council to improve the proposed project.

Need for a New Arena

Listed concern: A majority of Commissioners did not find the proposed, publicly financed \$300 million Arena a sound and reasonable public investment in the redevelopment of the Downtown.

Factual context:

- ✓ The City of Richmond is the epicenter of the 44th largest metropolitan statistical area in the United States. In a constantly changing global economy, the City is in competition with cities all over the world to retain and attract talent, jobs, and capital investment. This in turn produces revenue to fund both required and desired City services for citizens, build infrastructure, fund Richmond Public Schools, and fund solutions to combat challenges in the City such as poverty and affordable housing.
- ✓ Each of the top 50 MSAs in the country have major arenas that provide entertainment opportunities for their residents. These facilities also attract non-residents who enjoy the entertainment opportunities provided and discretionary tourism related spending in retail stores, restaurants, and hotels.
- ✓ Although many similar arena based, mixed-use projects have been executed in metro areas that compete with Richmond, nothing in the report indicates that Commissioners sought out the advice of public officials, business leaders, community leaders or civic associations from any of the these top metro areas to inquire about the importance of their own arenas and programs to achieve their own civic goals.
- ✓ The final report indicates that (1) the majority of Navy Hill Commission determined that “mixed use development [i.e., multifamily housing, retail, restaurant, hotel, Blues Armory, and entertainment] is the right approach in this part of downtown” and (2) a plurality of Navy Hill Commission determined that the project ordinances are “a workable mechanism [for enabling the new residential, office, commercial, and lodging included in the project] that require an up-front commitment to the Arena.”
- ✓ The Arena is a public asset, and it is the centerpiece of the arena-anchored master planned mixed-use development. The Arena leverages approximately \$1.2 billion in private development on several city blocks that immediately surround it. This creates a true live-work-play development in Downtown Richmond.
- ✓ As contemplated by the ordinances, the majority of the Navy Hill Commission has determined that the mixed-use development is the “right approach”. Just as important, the project ordinances and development agreement contractually require a critical amount of the mixed-us development be built at the same time as the Arena is being built.
- ✓ Without the new Arena, the critical mass of mixed-use development proposed by the project’s development team does not exist. Assuming organic growth that is not part of a master-planned development is highly speculative and without foundation. Furthermore, development without a new Arena as the anchor would likely result in the elimination of many of the project’s benefits including:
 - Private funding to build a 500+ room full-service convention hotel without City incentives;

- Private funding to build a speculative Class-A office building without City incentives;
- Private funding to renovate and adaptively reuse the historic Blues Armory;
- Private funding to build public infrastructure, including recreating the street grid, for the project; and
- The cost avoidance of demolishing the Richmond Coliseum and paying off the debt on the building.

Public Financing for a New Arena

Listed concern: The City should change the scope of the Arena project so that its costs could be financed by a TIF the size of the 10-block project area.

Factual context:

- ✓ The arena program being proposed is based on significant research as well as the collective contribution of experienced arena developers, designers, and operators. It is based on both national market data and regional data. Suggesting the arena scope could be changed without offering any supportive research is not a reasonable proposal. The Commission did not invite testimony from any arena operators, qualified market researchers, or public officials from cities who developed similar projects.
- ✓ The new incremental revenue from the Navy Hill project blocks (just the 10-block project area) is projected to be approximately \$768 million over thirty years. This will fully repay the Arena’s non-recourse bond debt service (principal and interest) of \$623 million.
- ✓ The inclusion of incremental real estate taxes from the other parcels (i.e. the 80-block “TIF”) is necessary to achieve a minimum 1.5 debt service coverage ratio from day one of the bond issuance and to allow for appropriate debt service reserves. With this in place the Arena debt can be structured as non-recourse revenue bonds. This protects the City’s General Fund from ever being called on to cover any debt service shortfalls. Also, the non-recourse nature of the bond does not negatively impact the City’s borrowing capacity for other capital projects nor does it have a negative impact on the City’s credit rating.
- ✓ New revenue above what is needed to pay for the Arena’s debt service will be used to pay off the Arena debt as soon as 9 years early. This allows the City to have significant savings in interest payments and for more of the new revenues to flow directly back to the City’s General Fund to pay for public school initiatives, needed public infrastructure, and new affordable housing. This is consistent with the City’s Debt Policies which call for the rapid repayment of principal to reduce interest costs.

Note: Projections are based on MuniCap Projection 27-A

Impact on the General Fund, in Particular School Funding

Listed concern: A majority of Commissioners find that the Navy Hill project poses a risk to City General Fund and School funding; a plurality of Commissioners finds that the project poses a risk to other city businesses or programs.

Factual context:

- ✓ The project is expected to result in \$17.6 million in net revenues to the General Fund in the first five years as compared to \$9.9 million without the project.
- ✓ The project is expected to generate \$1.6 million in new capital funding for Richmond Public Schools in the first five years from the 1.5% meals tax increase.
- ✓ The City's Director of Finance informed the Navy Hill Commission that concerns about the Navy Hill project causing Richmond Public Schools to lose millions of dollars in annual state funding are unfounded. State funding for schools allocated using the Local Composite Index (LCI) considers economic growth throughout the Commonwealth of Virginia and not just the City of Richmond. Putting the project in the context of statewide economic development growth offsets the expected growth in the City, while additional enrolled Richmond Public Schools students would increase revenue. Thus the assumptions made by individuals and RPS Board are inaccurate. If growth of the City's tax base was a negative impact on State school funding, then every municipality in the Commonwealth would embrace minimum annual growth.
- ✓ State funding for Richmond Public Schools allocated by the LCI is increasing by approximately \$5 million in FY2021, despite the fact that taxable real estate values in the City have grown about 8% per year during the past two years.
- ✓ The "risk" to City's General Fund revenue in terms of incremental real estate taxes redirected to the Navy Hill fund has not been proportionately described as a fraction of one percent of the overall General Fund budget. The perceived "overlap" has been exaggerated.
- ✓ The non-recourse nature of the revenue bonds shifts the risk of any potential incremental revenue shortfalls to the bond holders, not to the City.
- ✓ While the projected expenditure estimates on City services were outlined in the Fiscal and Economic Impact Statement attached to all of the Navy Hill ordinances, Finance has noted that there will also be additional General Fund revenues generated by the project that are not tied to the non-recourse debt service. Examples of this include vehicle personal property taxes, vehicle license fees, and building permit fees.
- ✓ City Council has adopted ordinances in support of many other economic development projects that created at least 100 new jobs and enhanced taxable real estate values. Several examples of these projects were provided to the Navy Hill Commission and were not cited or referenced in their report.
- ✓ The Navy Hill project creates a better diversified local economy through the creation of additional business-related revenues. This helps to insulate the General Fund from the impact of a future potential economic downturn effectively reducing risks for the City.

Project Implementation and Oversight

Listed concern: A majority of Commissioners find that these costs have not been reasonably estimated.

Factual context:

- ✓ To ensure the Navy Hill project's positive anticipated fiscal impact is not overstated, the estimated Departmental costs have been subtracted from the estimated revenues in the impact statement and subsequent impact and cash flow analyses provided to City Council and the Navy Hill Commission. The impact statement shows that the project is expected to result in significant fiscal benefits even when taking into account the estimated new costs of \$73.6 million over 30 years.
- ✓ The collective estimated cost for project implementation and oversight likely errs on the high side. This is because many of the costs incurred are also attributable to other projects outside of Navy Hill. The City would incur certain costs at some point in the near future regardless of whether or not the project moves forward. Nonetheless, the impact statement utilizes a conservative approach by including such costs as deductions from the project's projected fiscal impact. Moreover, many of the contemplated "costs" are ultimately expenditures that provide additional benefits as they will go towards securing public facilities and creating more jobs and opportunities for residents interested in public safety and other city employment.

Examples include:

- \$41.1 million for the Richmond Fire Department, which will provide for a new Downtown fire station and the hiring of 18 full-time employees. Though the proposed project would increase the need, Richmond Fire Department indicates that there is a projected need for such a station independent of the proposed project.
 - Approximately \$4 million to relocate Justice Services and storage from the Public Safety Building. Relocation from the decaying facility is needed regardless of the proposed project.
 - \$21 million for the Richmond Police Department, which will provide for an additional 10 police officers over time.
 - An additional 8 full-time jobs, collectively, for the Finance, Economic Development, and Planning and Development Review Departments.
- ✓ The Fiscal and Economic Impact Statement prepared by Davenport and Co. and submitted with the project ordinances includes a breakdown of various city operational costs estimated to result from the proposed project.
 - ✓ The list of costs shown in the impact statement results from input provided by various City Departments that might play a role in administering or otherwise be impacted by the project. Each City Department's respective analysis of the potential increase in Departmental costs is estimated should the Navy Hill project be approved.

- ✓ As it relates to regulatory reviews and approvals that apply outside of the confines of the contract, the Developer will be required to pay permitting fees in the same manner as any other developer in the City. Such fees are designed to offset the City's operating costs. Moreover, the City is currently investigating initiating a third party permitting review program that would be available to all developers. The Navy Hill developer has publicly stated that they would be willing to use such a third-party. The third party permitting review program would be paid for at each developers sole cost and expense. A program of this nature gives developers the ability to have their projects reviewed and permitted to the City's standards without having to rely on the City's traditional internal review and permitting process. Even though this process is being investigated for implementation, the City conservatively estimated the increased costs in the fiscal impact statement for reviewing and issuing permits.
- ✓ The proposed agreements allow for the City/EDA to use \$500,000 of the bond proceeds to contract with an expert consultant. The expert consultant will work on behalf of the City/EDA to monitor the Arena development, including exercising the contractual rights in the Arena Lease that are designed to protect the City/EDA.

Community Benefits Highlights

Listed concern: A majority of Commissioners finds that there is insufficient information to validate such benefits as GRTC transit and affordable housing.

Factual context:

- ✓ The Navy Hill project uses the criteria that is in line with the Chapter 16 (Housing) of the City Code that defines affordability. The mixed-income residential development was never intended to be a replacement for public housing. At the same time, the developer must demonstrate \$10 million in philanthropic fundraising that will be used to partner with the Better Housing Coalition to build 200 more affordable residential units at deeper levels of affordability as part of the Conditions Precedent to financially close on the bonds for the arena. This means that the bonds cannot be issued until \$10 million in philanthropy is programmed for the construction of the additional 200 affordable housing units.
- ✓ The Navy Hill proposal was submitted to the Administration prior to City Council approving Resolution 2018-R083 that requires a minimum of 15% of a development's residential units be reserved for affordable housing, if among other things, the residential development involves the conveyance of an interest in City-owned real estate. To comply with this new resolution the project would require the addition of approximately 40 units to the proposed 280 affordable housing units in the Navy Hill project, or a total of 320 affordable housing units.
- ✓ Richmond Redevelopment and Housing Authority (RRHA) issued the following statement related to affordable housing, Housing Choice Vouchers, and the Navy Hill project:

- *“RRHA is pleased that the Navy Hill Development is striving to provide housing choices for families of a variety of incomes in the City of Richmond. The units in this project are not tied to a specific RRHA strategy and will provide options beyond RRHA’s current portfolio. Additionally, any addition to the list of properties accepting Housing Choice Vouchers is beneficial to the community, as it increases options for voucher-holders. RRHA looks forward to having more extensive discussions with the Navy Hill Development team as the details of the project are finalized.”*

- ✓ The proposed GRTC Transit Center solution was created based on the GRTC’s current approved strategic plan and discussions with previous GRTC leadership. Substantive discussions were had and a draft lease term sheet for the GRTC Transit Center was created. Now that GRTC has new leadership, the organization is re-evaluating its transit model. The City Administration and the Navy Hill developer are having ongoing discussions with GRTC leadership to identify a Transit Center solution that is better aligned with the organization’s current vision for transit within the City.