

Final Report

Navy Hill Development Advisory Commission

December 23, 2019

I. **Overview of the Commission**

The Council of the City of Richmond created the Navy Hill Development Advisory Commission on December 18, 2018 by Ordinance Number 2018-297 and amended on June 10, 2019 for “the purpose of providing Council with advice concerning the [Navy Hill] development contemplated by the Ordinances.” The Commission received copies of all the proposed ordinances following their swearing in by the City Clerk.

The duty of the Commission is to “seek to validate the assumptions, projections, costs, and benefits of the development contemplated by the Ordinances and the likely impact of that development on the City.”

The format of this report tracks the ordinance creating the Commission with respect to Navy Hill:

- Assumptions
- Projections
- Costs
- Benefits
- Impact on the City

In addition, the Commission is providing Council advice on means and methods to improve the Navy Hill ordinances, the Navy Hill project, and the Navy Hill process.

II. **Composition of the Commission**

The Commission consists of nine members appointed by Council. Commission membership is based on the following professional qualifications:

“The Council anticipates that the Chairman and Vice Chairman will have experience with large development projects, preferably including a public component, or with legal matters and local taxation matters. The Council anticipates that the membership of the Commission as a whole will include expertise in legal matters, tax increment financing, entertainment and sporting facility attendance and finance, real estate development, public finance, and local taxation.”

On August 23, 2019 Council appointed the following Commissioners:

- John Gerner (Vice Chair)
- Mark M. Gordon
- Pierce Homer (Chair)
- Grindly R. Johnson
- Suzanne S. Long
- Dr. Hakim J. Lucas
- Mary Harding (Mimi) Sadler
- Michael J. Schewe!
- Dr. Corey D. B. Walker

A professional profile for each Commissioner can be found at <https://navyhillcommission.org/members.pdf> .

III. Work of the Commission

The Commission held nine work sessions, each with structured opportunities for public comment following presentations to the Commission. In addition, the Commission held four formal public hearings in the four quadrants of the City to solicit additional public comment, both written and verbal. The Commission approved this final report on Sunday December 22.

The Commission reviewed nearly 1,000 pages of proposed Navy Hill ordinances, received more than 25 technical and substantive presentations to the full Commission, and accepted the advice and guidance of individual Commissioners following their individual meetings with City staff, Navy Hill representatives, community and advocacy groups, etc. These materials are all captured under the **Presentation Slides and Documents** section of the Navy Hill Commission website at <http://navyhillcommission.org/> .

The Commission took seriously the admonition by Council for an open, transparent and accountable process. The first step towards transparency was the designation of Vice Chair John Gerner as the Freedom of Information Act (FOIA) Officer and his subsequent training and certification as a FOIA Officer.

The second step was the establishment of an independent Commission website by Mr. Gerner at <http://navyhillcommission.org/> .

The third step towards transparency was to create a Commission email system that would allow the capture of electronic communications between and among Commissioners, stakeholders, advocates and the general public.

The fourth step towards transparency was to provide an opportunity, at all nine work sessions, for public comment *after* the Commission had received its presentations and conducted its deliberations. Although this method of engagement did add to the time required of citizen participants, it offered an opportunity for citizens to react to substantive issues in real time.

The fifth step towards transparency will be ongoing—the Navy Hill Advisory Commission website will remain in place as a resource to Council, citizens and interested organizations. ***Of particular benefit may be public access to the financial model developed by Vice Chair Gerner at***

http://www.navyhillcommission.org/John_Gerner_Financial_Model_for_Commission.xls

His model has been validated and can be used by Councilmembers, stakeholders, or citizens to evaluate the Navy Hill proposal as introduced or to consider alternative revenue, cost, or schedule scenarios during Council or citizen consideration of the Navy Hill project.

Also contained on the website is a Commission risk matrix developed by Chairman Homer that identified four key risks of the Navy Hill project:

- Need for, and synergistic value of, the proposed arena
- Impact of the project on City General Fund activities and capital program
- Impact of the project on school funding
- Management and oversight of projects and programs, including public benefits such as affordable housing, transit, tourism and minority procurement

IV. Layout of Commission Findings

- a. Commission findings are based on the individual worksheets appended to this report. Each individual finding is scored from the worksheet as:
 - i. Yes
 - ii. No
 - iii. Insufficient information/no position

- b. Validated assumptions, projections, costs, benefits or impacts of the project are designated in **green** if they support advancement of the project by a majority of Commissioners.
- c. Assumptions, projections, costs, benefits or impacts of the project that are not validated due to insufficient information, lack of a majority position, or no position on the issue are designated in **yellow**.
- d. Assumptions, projections, costs, benefits or impacts of the project that are not agreed to by a majority of Commissioners or do not support the advancement of the project are designated in **red**.
- e. These scores are summarized in the Appendix entitled Scoresheet.
- f. In Sections, X, XI and XII, individual Commissioners have provided a variety of insights and options on ways to improve the project, the ordinances, or the overall process. Note that these insights and options have not been reviewed or approved by the Commission as a whole. Nor do they represent a coherent strategy or overall approach to the Navy Hill project. They are intended as constructive but standalone suggestions by individual Commissioners to Council.

V. **Findings of the Commission: Evaluation of the Key Assumptions**

Assumption: Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?

Despite some significant reservations, a plurality of Commissioners (4Y-2N-2?) find that the ordinance itself is a workable mechanism that requires an up-front commitment to the Arena.

Assumptions: Does the Navy Hill project and program pose a risk to:

- a. The City general fund or its capital program
- b. City public school funding
- c. Other City businesses or programs

A majority of Commissioners (5Y-3N) find that the Navy Hill project poses a risk to City General Fund and School funding; a plurality of Commissioners (4Y-1N-3?) finds that the project poses a risk to other city businesses or programs.

VI. **Findings of the Commission: Evaluation of Key Projections**

Projection: Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena?

A plurality of Commissioners (2Y-2.5N-3.5?) finds that there is either insufficient data to validate the contract structure or risk profile, or have no position on these projections.

Projection: Are the tax district base value and revenue projections appropriate and accurate?

A plurality of Commissioners (2Y-2N-4?) find that there is either insufficient data to validate these projections or have no position on these projections.

Projection: Are **unit and gross revenue estimates** for retail, restaurant, office and hotel uses appropriate to the Richmond market?

A plurality of Commissioners (1Y-3N-4?) find that there is either insufficient data to validate these estimates or have no position on these projections.

Projection: Are the **development schedules** for individual project components realistic and achievable?

A plurality of Commissioners (1.5Y-2.5N-4?) find that there is either insufficient data to validate these schedules or have no position on these schedules.

VII. Findings of the Commission: Costs

Costs: Are the financial and other assumptions underlying the approximately \$300 Million Arena **TIF bond financing** valid and reasonable, including the scope and structure of the TIF District and TIF Financing?

A Majority of Commissioners (5Y-4N) find this approach valid and reasonable.

Costs: Is there a **cost estimate for the proposed infrastructure improvements?**

The Commission is divided on this issue (2Y-3N-3?) with three Commissioners finding this approach not valid or reasonable, and four Commissioners finding insufficient data to validate these estimates.

Costs: Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:

- a. **Cost of parcels** and disposition of parcel purchase revenues?
A plurality of Commissioners (3Y-4N-1?) find that these costs have not been reasonably estimated.

- b. Impact of **rehabilitation tax credits/abatements** on City, School and TIF revenues?
A plurality of Commissioners (2.5Y-4N-1.5?) find that these costs have not been reasonably estimated.
- c. Impact of annual **EDA grants** on City budgets?
A plurality of Commissioners (1Y-4N-3?) find that these costs and impacts have not been reasonably estimated.
- d. Impact on **School funding** and services?
A plurality of Commissioners (3Y-4N-1?) find that these costs have not been reasonably estimated.
- e. Impact on City **general fund** and services?
A plurality of Commissioners (3Y-4N-1?) find that these costs have not been reasonably estimated.
- f. **Cost of Navy Hill program and project oversight?**
A majority of Commissioners (0Y-5N-2?) find that these costs have not been reasonably estimated.

VIII. **Findings of the Commission: Benefits**

Benefits: Are the quantitative and qualitative benefits of the proposed **VCU facility** documented and reasonable?
A majority of the Commission (5Y-1N-3?) finds that these benefits are documented and reasonable.

Benefits: Are the quantitative and qualitative benefits of the proposed **17,500 seat arena** documented and reasonable?
A plurality of Commissioners (2Y-3N-4?) find that there is either insufficient data to validate these benefits or have no position on these benefits

Benefits: Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable?

A majority of Commissioners (6Y-0N-3?) finds that these benefits are documented and reasonable.

Benefits: Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable?

A majority of Commissioners (2Y-2N-5?) found that there was insufficient information to assess these benefits (or any costs of the facility or its lease).

Benefits: Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?

A majority of Commissioners (0Y-3N-6?) finds that there is insufficient information to address this issue.

Benefits: Are the minority procurement goals reasonable and appropriate?

A majority of Commissioners (5Y-1N-3?) finds that these benefits are documented and reasonable. However, Commissioners with the most expertise in this area expressed concern with the level and quality of documentation provided to the Commission)

Benefits: Is mixed use development the right approach in this part of Downtown?

A majority of Commissioners (7Y-0N-2?) finds that these benefits are documented and reasonable:

- a. Multifamily
- b. Retail
- c. Restaurant
- d. Hotel
- e. Blues Armory
- f. Entertainment

IX. **Findings of the Commission: Impacts of the Project**

Commissioners were asked: “Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown?”

A majority of Commissioners (2Y-5N-2?) did not find the proposed, publicly financed \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown.

Commissioners who held this majority view generally found the arena to be the riskiest element in the Navy Hill project, and cited one or more of the following reasons for their determination:

- A failure of the arena operations or marketing would almost certainly require City intervention
- Alternative uses for the arena site were not considered, and the need for a 17,500-seat arena has not been established or verified
- As a regional facility, the entire region should provide financial support for the arena
- The arena itself was unlikely to create strong and reliable retail, entertainment, lodging or restaurant destinations or demand

Commissioners who did not hold the majority view generally found the arena to be integral to an overall package of downtown attractions, and cited one or more of the following reasons for their determination:

- The Spectra investment in the facility is a measure of likely success of the facility
- The risk of the arena enterprise could be mitigated or overcome by the success of the residential, retail, restaurant and lodging elements of the project
- There simply was insufficient information to make a determination

X. **Recommendations to Improve the Proposed Development**

The Commission ordinance does not ask for ways to improve the proposed development. Nevertheless, several Commissioners have offered advice on how to improve the proposed development. These suggestions are NOT endorsed by the Commission as a whole, nor do they represent a coherent overall strategy. They are individual, standalone suggestions by individual Commissioners to improve the proposed Navy Hill development project:

- a. The Navy Hill project is a bold and aspirational proposal hampered by the exclusion of key stakeholders in planning. The result is a proposal supported by mediocre study and analysis. Further, where the analysis is lacking, the project might be overcome by the esprit de corps of *current* leaders in the public and private sectors to overcome unanticipated setbacks. There is, of course, no guarantee that future leaders in these roles would share the same unanimity of mind and continuity to the project. Given the opportunity for further analysis and scenario planning, the Navy Hill project is viable. However, as presented, the project lacks adequate analysis and stakeholder engagement to provide sufficient confidence to proceed.
- b. The project should include affordable housing that at-least meets the minimum level set by City Council policy, as they have already publicly discussed.
- c. The City should take a more incremental approach to ensure successful residential and commercial development *first*.
- d. Had the Council utilized another citizen commission, we would have benefited from more time discussing ordinances, versus presentations from outside alleged expert. The analysis and facts seemed disjointed, and we would have benefited from hearing from main players first. We would have benefitted from reduced amount of public hearings to work on the report. We would have benefited

from greater input and advice earlier from commission members into how we would work.

- e. 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.
- f. Maintain the TIF district but use it to generate funds only for the demolition of the Coliseum and restoration of the street grid. Regardless of the outcome of the Navy Hill project as a whole, (i) make Parcel D available for sale to a private party for use by VCU hospital for a taxable project substantially as contemplated in the Navy Hill Project and on the schedule contemplated in the Navy Hill Project, (ii) make available for sale, or long term financeable ground lease, to the highest bidder, some or all of the parcels that would be included in the Navy Hill project, for individual parcel development (as compared to a mandated comprehensive multi-parcel development like the Navy Hill project) consistent with the City's master plan, within a defined and reasonable time schedule, and (iii) consider approving the ordinances that were approved by the Planning Commission for reconfiguring the development area within the Navy Hill project so that, even if Navy Hill Project is not done, these parcels will be developable by others.

XI. **Recommendations to Improve the Proposed Ordinances**

The Commission ordinance does not ask for ways to improve the proposed ordinances. Nevertheless, several Commissioners have offered advice on how to improve the proposed ordinances. These suggestions are NOT endorsed by the Commission as a whole, nor do they represent a coherent overall strategy. They are individual, standalone suggestions by individual Commissioners to improve the proposed Navy Hill ordinances:

- a. Reduce the size of the increment financing area (aka TIF district) to one that only includes the development parcels.

- b. Start with a parcellation ordinance and then surplus parcel D—VCU has been a demonstrated catalyst for downtown development.
- c. GRTC and transportation issues need resolution, and the workforce development plan needs to be strengthened to maximize minority and underemployed citizen participation.
- d. Significantly reduce the size of the TIF. Include a meaningful project master plan that shows how new development will be knit into the existing city fabric which has been compromised over time by institutional and infrastructure encroachment. A project in this area is our best opportunity to address social and environmental equity in the city.
- e. Four recommendations:
 - i. That two conditions precedent to the Bond closing be added that say, in effect, (i) that the Developer will have demonstrated that it has in place with the Contractor and other applicable parties, a plan reasonably satisfactory to the City regarding the implementation and satisfaction of the minority business goals of the [Development Agreement], and (ii) that Section 6.1(b)(xx) of the Development Agreement be modified to provide that the (xx) the delivery of the final Financial Model to the City that shows no material adverse change from that applicable at the time City Council approved the Navy Hill Ordinances.
 - ii. That the [Development Agreement] be amended in such a fashion that the Developer commits to give priority to housing voucher holders for the Affordable Housing in the Project.
 - iii. That additional protections be added for the benefit of school funding.
 - iv. That as a condition precedent to the Bond closing or otherwise in advance of final approval, the City obtain information regarding the projected annual major maintenance and renewal costs for the Arena and confirm that those costs will

be matched by reasonably projected revenues into the Renewal Work fund.

XII. **Recommendations to Improve the RFP or the Current Process**

The Commission ordinance does not ask for ways to improve the City RFP or the current development review process. Nevertheless, several Commissioners have offered advice on how to improve the RFP or the current development process. These suggestions are NOT endorsed by the Commission as a whole, nor do they represent a coherent overall strategy. They are individual, standalone suggestions by individual Commissioners to improve the RFP or the current development review process:

- a. Revise the RFP for a more competitive process. Market analysis shows demand for more mixed-use development downtown. There have already been unsolicited offers to redevelop certain City-owned parcels.
- b. Revise the RFP to allow the City to move forward with parcellation and the surplussing of parcel D as a demonstration of its commitment to redevelop the area. Since the City is not bound by Chapter 21, presumably, they could revise the current RFP and not lose too much time.
- c. The RFP should NOT be revised. The scope of our review is NOT to question the RFP process and policy decisions of City elected representatives. Those who want to question the RFP process, should have done so when the RFP was released. To do so now, is too much too late and demonstrates a problem in agency. From a real estate perspective none of the property can be marketed and sold without arena demo, paying off existing debt, resub dividing all of the parcels, and building millions of dollars in infrastructure.
- d. The RFP was too narrowly written, excluding other potential input for highest and best use of the project site. It was a mistake to make a

17,500-seat arena a technical requirement for responses to the RFP. A smaller arena or amphitheater would serve the city's needs.

e. Do not issue a new RFP. If a new RFP is issued, then three years from now, we would be in the exact same position we are in now but with less likelihood of a successful project because the private sector support for another project will be very unlikely to match its support for this project. A new RFP would not yield a more competitive proposal, but it would certainly yield a weaker proposal.

f. See attached Dr. Corey Walker appendix on process.

Attachments/Appendices:

Scoresheet Summary

Individual worksheets

Dr. Corey Walker appendix on process

Commission Scoresheet

Issue	Yes	No	Insufficient Data No Positions
1) Arena Enable NH Development Ordinance	4	2	2
2a) Risk to General Fund	5	3	0
2b) Risk to School Funds	5	3	0
2c) Risk to Other Biz or Programs	4	1	3
3) Arena Contract Risks Reasonable	2	2.5	3.5
4) Tax District Base Values Accurate	2	2	4
5) Retail, Restaurant, Hotel & Office Revenue Estimates Appropriate to Richmond	1	3	4
6) Schedules Realistic	1.5	2.5	4
7) TIF Assumptions Valid & Reasonable	5	4	0
8) Cost Estimate for Infrastructure	2	3	3
9a) Cost of Parcel Acquisition Reasonable	3	4	1
9b) Rehab Tax Abatement Impacts Estimated	2.5	4	1.5
9c) EDA Grant Budget Impacts Estimated	1	4	3
9d) Impact on School Funding Estimated	3	4	1
9e) Impact on General Fund Services Estimated	3	4	1
9f) Navy Hill Oversight by City Estimated	0	5	3
10) VCU Benefits Reasonable	5	1	3
11) Arena Benefits Reasonable	2	3	4
12) Street Grid Benefits Reasonable	6	0	3
13) Transit Facility Benefits Reasonable	2	2	5
14) Affordable Housing Consistent w/City Policy	0	3	6
15) Minority Goals Appropriate	5	1	3
16) Mixed Use Right Approach	7	0	2
17) Arena A Sound Public Investment	2	5	2

John Gerner's Navy Hill Development Advisory Commission Worksheet
December 16, 2019

Introduction

Overview of the Commission

The Commission is created for the purpose of providing the Council with advice concerning the development contemplated by the Ordinances.

The Commission shall evaluate the assumptions, projections, costs, benefits, and the likely impact of the development of the project proposed by the ordinances.

Commission Members

Meetings of the Commission

Nine work sessions, each with public participation

Four public hearings

Major issues and speakers invited to present at meetings

Commission's program of work

Commission website with all meetings recorded and all documents made available to the public

Commission email and FOIA process established to document Commission activities

Independent Commission tools developed:

Financial model

Risk matrix

Additional background

Commission's Assessment of the Navy Hill Development Proposal

Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption:** Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?
Insufficient data. Although the development team and City Administration have insisted that the arena district approach is the only option, I could not validate that critical assumption. There was a fundamentally flawed RFP process that required a new arena and prevented consideration of reasonable alternatives. Available market analysis indicates that those alternatives exist if actively explored.

2. **Assumption:** Does the Navy Hill project and program pose a risk to:
 - a. City general fund or capital program? **Yes. The large increment financing area (aka TIF district) includes a substantial number of existing downtown properties that normally would have all of their tax revenues dedicated to the City's General Fund. This project would divert the future incremental tax revenues from these existing and independently-developed properties to the Navy Hill Fund.**
 - b. City public school funding? **Yes, since school funding is a major public service funded by the City of Richmond and currently needs additional funding to address many pressing issues. Based on the current MuniCap estimates and accelerated "Turbo" bond payment approach, the Navy Hill Fund would cumulatively receive more from the future General Fund than it would return until the bonds are fully repaid.**
 - c. Other City businesses or City programs? **Yes, the Navy Project thus far has already consumed significant City resources and focus. Based on comparable experience elsewhere, that situation would not change if approved and could be much worse.**

3. **Projection:** Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena? **Insufficient data. Future performance without a major sports tenant is uncertain, especially given regional competition from other arenas. Although the chosen operator has provided assurances that it would cover potential operating deficits, the specifics of that guarantee have not been validated since the agreement is unavailable. The financial responsibility for future major renovations is also unclear.**

4. **Projection:** Are the tax district base value and revenue projections appropriate and accurate? **MuniCap's methodology is appropriate given the inherent uncertainty of many factors. However, it relies on many key assumptions provided by the developer that have not been validated. The "Hunden Effect" projections could not be validated since that consultant did not provide the comparable data it used to justify this financial performance increase.**

5. **Projection:** Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market? **Insufficient data. The expected number of new restaurants and sales performance of new restaurants appear optimistic.**

6. **Projection:** Are the development schedules for individual project components realistic and achievable? **Insufficient data. The schedule appears aggressive, especially considering the delays that have already occurred with this overall effort. Completion dates assume that financing will be in place when expected, and this has not been validated since financing commitments in the developer agreement are only for the first sequence (CAFÉ+D parcels). The schedule also assumes no economic recession in the near term, which is also uncertain.**

7. **Costs:** Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing? **No. See comments for #2. The plan was originally proposed to be self-supporting using taxes from new private development. The actual plan substantially relies on incremental tax revenues from existing and independently-developed downtown properties.**

8. **Costs:** Is there a cost estimate for the proposed infrastructure improvements? **Insufficient data. There is a City Administration \$12 million cost general estimate for demolishing the existing coliseum. The plan is for the developers to directly pay necessary infrastructure costs for the development parcels. There is an early conceptual estimate of \$26 million to \$38 million for these privately-financed infrastructure improvements.**

9. **Costs:** Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:
 - a. Cost of parcels and disposition of parcel purchase revenues? **Yes, although the purchase price is below assessed value and potential market value of the development parcels.**

 - b. Impact of rehabilitation tax credits on City, School and TIF revenues? **Insufficient data. Assumed to be insignificant.**

 - c. Impact of annual EDA grants on City budgets? **No. Very limited fiscal analysis on estimated future incremental cost of City services within the increment financing area (aka TIF district).**

 - d. Impact on School funding and services? **No. See above comment.**

 - e. Impact on City general fund and services? **No. See above comment.**

 - f. Cost of Navy Hill program and project oversight? **No position, but appears lower than that likely needed.**

10. **Benefits:** Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable? **Yes.**

11. **Benefits:** Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable? **No. There would be benefits from a new arena, but these are outweighed by the costs and risks involved with this financing approach.**
12. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable? **Yes.**
13. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable? **Yes, assuming GRTC agrees with this plan and its ultimate funding approach.**
14. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures? **Documented, yes. But not very affordable overall based on City median income.**
15. **Benefits:** Are the minority procurement goals reasonable and appropriate? **Yes.**
16. **Benefits:** Is mixed use development the right approach in this part of Downtown? **Yes, although the expected number of new restaurants and sales performance of new restaurants appear optimistic.**
 - a. Multifamily
 - b. Retail
 - c. Restaurant
 - d. Hotel
 - e. Blues Armory
 - f. Entertainment
17. **Impacts:** Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown? **No. The project puts an unreasonably high financial burden on the City of Richmond for a discretionary regional amenity (arena) when the City currently faces more pressing needs for its financial resources. Although there is substantial planned private development in the Navy Hill plan, much of this planned development could likely occur without the burden of a \$300+ million arena bond.**

Assessment of the Navy Hill Development Process

Ways to enhance the process

- What recommendations would improve the proposed development contemplated by the ordinances? **Affordable housing that at least meets the minimum level set by City Council policy, as they have already publicly discussed.**
- What recommendations would improve the proposed ordinances? **Reduce the size of the increment financing area (aka TIF district) to one that only includes the development parcels.**

- Could a revised RFP allow for a more competitive process for individual parcels and/or projects? **Yes. Market analysis shows demand for more mixed-use development downtown. There have already been unsolicited offers to redevelop certain City-owned parcels.**

Other recommendations for economic development in the area

Further consideration of really affordable housing, especially that involving home ownership.

Other considerations

City Council should have the financial ability and process to directly choose its own consultants for these situations.

Conclusion

Appendices

Commission Ordinance

Commission Work Products

Navy Hill Development Advisory Commission Website Information

Other Relevant Reports

Mark M. Gordon
Navy Hill Development Advisory Commission Worksheet
December 23, 2019

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Independent Commission tools developed:

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Additional background

Commission's Assessment of the Navy Hill Development Proposal

Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption: Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?**

Yes. If there were alternative scenario planning, the arena may not be necessary for future residential and office development, but it is necessary for commercial (particularly restaurant commercial and lodging).

2. **Assumption:** Does the Navy Hill project and program pose a risk to:

- a. City general fund or capital program?

(yes, no, no position, insufficient data) Yes.

(brief comment) While there are various levels of the risk, the highest risk is in the initial five years depending upon actual performance relative to the pro-forma assumptions. The probability and associated risk that one or more significant assumptions do not perform to target would be anticipated.

b. City public school funding?

(yes, no, no position, insufficient data) Yes.

(brief comment) As a domino effect to the General Fund.

c. Other City businesses or City programs?

yes, no, no position, insufficient data) Insufficient data.

(brief comment) While some affect to fund funding could be anticipated, how funds would be reallocated would be mere conjecture.

3. **Projection: Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena?**

Mixed response, which may imply No. While the assumptions for the **construction** of the arena are not perfect, they provide higher confidence and better managed risk than many of the other assumptions. The **market** assumptions to support the arena provide moderate confidence, but less than the construction assumptions. The **operating** assumptions provide the least confidence and risk of long term exposure for the taxpayer.

4. **Projection: Are the tax district base value and revenue projections appropriate and accurate?**

(yes, no, no position, insufficient data) Insufficient data. As a key assumption, the current property valuations can be debated as to appropriateness, and therefore accuracy.

5. **Projection: Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market?**

(yes, no, no position, insufficient data) No.

(brief comment) The appropriateness of the revenue projections by category are variable. In today's environment, the retail estimates may have the highest risk.

6. **Projection: Are the development schedules for individual project components realistic and achievable?**

(yes, no, no position, insufficient data) Insufficient data.

(brief comment)

7. Costs: Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing?

No. See response and comment for question 17.

8. Costs: Is there a cost estimate for the proposed infrastructure improvements?

*(yes, no, no position, insufficient data) No.
(brief comment)*

9. Costs: Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:

a. Cost of parcels and disposition of parcel purchase revenues?

*(yes, no, no position, insufficient data) No.
(brief comment)*

b. Impact of rehabilitation tax credits on City, School and TIF revenues?

*(yes, no, no position, insufficient data) No.
(brief comment)*

c. Impact of annual EDA grants on City budgets?

*(yes, no, no position, insufficient data) No.
(brief comment)*

d. Impact on School funding and services?

*(yes, no, no position, insufficient data) No.
(brief comment)*

e. Impact on City general fund and services

*(yes, no, no position, insufficient data) No.
(brief comment)*

f. Cost of Navy Hill program and project oversight

*(yes, no, no position, insufficient data) No.
(brief comment)*

10. Benefits: Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable?

*(yes, no, no position, insufficient data) Insufficient data.
(brief comment)*

11. Benefits: Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable?

*(yes, no, no position, insufficient data) Insufficient data.
(brief comment)*

12. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable?

*(yes, no, no position, insufficient data) Insufficient data.
(brief comment)*

13. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable?

*(yes, no, no position, insufficient data) Insufficient data.
(brief comment)*

14. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?

*(yes, no, no position, insufficient data) Insufficient data.
(brief comment)*

15. **Benefits:** Are the minority procurement goals reasonable and appropriate?

*(yes, no, no position, insufficient data) Yes, but could be enhanced.
(brief comment)*

16. **Benefits:** Is mixed use development the right approach in this part of Downtown?

- a. Multifamily
- b. Retail
- c. Restaurant
- d. Hotel
- e. Blues Armory
- f. Entertainment

*(yes, no, no position, insufficient data) Yes.
(brief comment)*

17. **Impacts: Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown?**

Sound and reasonable overall; No. Sound and reasonable for the arena; Yes.

The Navy Hill project is undoubtedly a bold proposal. One of the challenges of the proposal is that the measurement of "sound and reasonable" for private dollars is measured very differently than "sound and reasonable" for public dollars. Secondly, the Navy Hill project is seeking to solve for multiple large scale issues without considering alternative incremental approaches. Considering alternative incremental approaches may lessen the risk, yet remain quite aggressive while providing more thorough development and assessment of assumptions and more complete stakeholder buy-in.

Assessment of the Navy Hill Development Process

Ways to enhance the process (extended comments welcome)

- What recommendations would improve the proposed development contemplated by the ordinances? See Conclusion below.
- What recommendations would improve the proposed ordinances? See Conclusion below.
- Could a revised RFP allow for a more competitive process for individual parcels and/or projects? See Conclusion below.

Other recommendations for economic development in the area

Other considerations

Conclusion

The Navy Hill project is a bold and aspirational proposal hampered by the exclusion of key stakeholders in planning. The result is a proposal supported by mediocre study and analysis. Further, where the analysis is lacking, the project might be overcome by the esprit de corps of *current* leaders in the public and private sectors to overcome unanticipated setbacks. There is, of course, no guarantee that future leaders in these roles would share the same unanimity of mind and continuity to the project.

Given the opportunity for further analysis and scenario planning, the Navy Hill project is viable. However, as presented, the project lacks adequate analysis and stakeholder engagement to provide sufficient confidence to proceed.

Pierce Homer
Navy Hill Development Advisory Commission Worksheet
December 16, 2019

Introduction

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Financial model

Risk matrix

Additional background

Commission's Assessment of the Navy Hill Development Proposal

Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption:** Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?

(yes)

(but only with respect to the overall ordinance)

2. **Assumption:** Does the Navy Hill project and program pose a risk to:
 - a. City general fund or capital program?

(yes)

(the TIF effectively "borrows" from the GF)

- b. City public school funding?

(yes)

(the TIF effectively “borrows from the GF and could reduce state aid)

- c. Other City businesses or City programs?
(insufficient data)

3. **Projection:** Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena?
(no)
(the arena is the riskiest part of the project and nearly all of it falls to the public partner)

4. **Projection:** Are the tax district base value and revenue projections appropriate and accurate?
(no)
(parcel id, rehabilitation tax abatement, and use of “proposed” versus “actual” assessed values make these neither appropriate nor accurate)

5. **Projection:** Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market?
(no)
(City staff acknowledged that they had not done independent reviews of any of the above revenue projections; the use of suburban restaurant and retail unit values are not appropriate to Richmond and could be substantially wrong)

6. **Projection:** Are the development schedules for individual project components realistic and achievable?
(no. very questionable. Construction and permitting delays are highly likely)
(sensitivity analysis should consider significant delays in construction and operation of all facilities)

7. **Costs:** Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing?
(yes)
(while I believe the development area revenue and schedule assumptions are optimistic, there is sufficient cushion in the financing model to make up for slower revenue growth)

8. **Costs:** Is there a cost estimate for the proposed infrastructure improvements?
(no)
(as one of the best ideas in the proposal, this concept unfortunately kept changing)

9. **Costs:** Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:
 - a. Cost of parcels and disposition of parcel purchase revenues?

(no)
(Council and Commission have asked for appraisals or at least estimates of value)

b. Impact of rehabilitation tax credits on City, School and TIF revenues?
(no)
(this is a major issue that was acknowledged by City staff. Actual TIF and GF revenues are overstated as a result)

c. Impact of annual EDA grants on City budgets?
(insufficient data)
(brief comment)

d. Impact on School funding and services?
(no)
(in addition to the lost GF and state aid, the development will add approximately 300 students at \$7,000 annual local cost, according to City staff)

e. Impact on City general fund and services
(insufficient data)
(City staff made attempts to capture some of these costs, but not in a systematic way)

f. Cost of Navy Hill program and project oversight
(insufficient data)
(the \$500 k bond oversight is inadequate. There is no budget or data on how the City or EDA would pay for its oversight of arena or infrastructure oversight. Industry standards indicate proper project oversight alone should be in the tens of millions—the infrastructures and the arena are City/EDA projects that they need to oversee)

10. **Benefits:** Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable?

(yes)
(VCU indicated they had been trying to use or acquire Parcel D for many years. Parcelization and surplusing should proceed)

11. **Benefits:** Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable?

(no)
(the City-provided information indicated low utilization, low average ticket prices, and a very small number of events over 8,500 attendees. There would be very limited synergistic value in the arena)

12. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable?

(insufficient data)

(while there is little supporting data, restoration of the street grid is consistent with the recently adopted master plan and good planning practice)

13. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable?
(no)
(as GRTC indicated, they have no funding and will need 6-9 months to identify scope and cost)
14. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?
(insufficient data)
(conflicting statements and standards make this a challenging issue)
15. **Benefits:** Are the minority procurement goals reasonable and appropriate?
(insufficient data)
(defer to Ms. Johnson)
16. **Benefits:** Is mixed use development the right approach in this part of Downtown?
a. Multifamily
b. Retail
c. Restaurant
d. Hotel
e. Blues Armory
f. Entertainment
(yes)
(the question is whether a 17,500 square foot arena is an appropriate centerpiece to this development)
17. **Impacts:** Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown?
(no. the arena is the riskiest part of the Navy Hill proposal and 95% of that risk falls to the public sector. No consideration of the long term O&M and marketing has been conducted—an even bigger risk if the arena is under-utilized or does not attract larger events. In addition, many of the benefits (transit, affordable housing, minority procurement, street grid, etc) continue to evolve and change. Clearer definition and long term accountability of benefits would be necessary to overcome the potential costs to City general fund and school funding.

Assessment of the Navy Hill Development Process

Ways to enhance the process (extended comments welcome)

- What recommendations would improve the proposed development contemplated by the ordinances? **take an incremental approach to assure development anchors**
- What recommendations would improve the proposed ordinances? **start with parcelization and then surplus parcel D**
- Could a revised RFP allow for a more competitive process for individual parcels and/or projects? **Yes. The City should move forward with the above items (parcelization and surplus parcel D) as a demonstration of its commitment to redevelop the area. Since the City is not bound by Chapter 21, presumably, they could revise the current RFP**

Other recommendations for economic development in the area

Other considerations

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Grindly Johnson's Navy Hill Advisory Commission Worskheet
December 16, 2019

- Cost: TIF bond assumptions valid—yes
- Benefits: The Commission did not devote sufficient time to understanding project benefits, and the City/NH team did a poor job of articulating those benefits.
 - Specifically, the following benefits are NOT documented or reasonable—VCU, arena, street grid, transit facility, affordable housing, mixed use
 - Ms. Johnson requested specific information on minority procurement, and she has not received adequate answers to her questions or a detailed plan for the proposed \$300 million in minority procurement. Her finding on minority procurement is insufficient information
- Impact of the project: while desirable, there is insufficient information to draw a conclusion.

Suzanne Long Responses

Navy Hill Development Advisory Commission Worksheet December 16, 2019

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Commission's Assessment of the Navy Hill Development Proposal

Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption:** Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?

(yes, no, no position, insufficient data)

(brief comment)

Insufficient data.

I have broken this question down into a few components because it covers a lot of ground.

Publicly Financed:

The phrase “publicly financed” was initially included in this question before the term “17,500 seat Arena”. I think this point should be addressed, so I have included it in my response.

In the RFP, the City asked respondents to “discuss, evaluate, and, potentially, utilize a number of tools at its disposal in support of the Project” including “tax increment project financing supported by new incremental revenues generated by the Project.” The RFP response proposed, and the ordinances contemplate, the use of one of the financing mechanisms outlined in the RFP, which is TIF financing. TIF financing, in essence, allows an issuer to issue bonds to be repaid by increases in tax revenue over a base year, established in the TIF ordinance. In order to issue bonds on a tax-exempt basis (and, therefore, borrow at a lower rate of interest), the proceeds must be used to fund eligible expenses. In the context of the RFP, the eligible uses would be either constructing public infrastructure (e.g., streetscapes, curb cuts, publicly-owned buildings, etc.) or funding grants to developers for economic development projects. Under the proposal, the Arena will be owned by the Economic Development Authority of the City of Richmond, Virginia (the “EDA”) and will, therefore, be eligible to be constructed using tax-exempt bonds.

In addition to being eligible for tax-exempt financing, the other benefit to the Arena being publicly-owned is that if the developer owned the Arena the developer would likely have to borrow money for the construction of the facility. Any lender would likely put a lien on the Arena real estate and the facility. If the developer declared bankruptcy, the asset could be frozen.

17,500 Seat Arena:

17,500 seat arena is what was called for in the RFP.

Spectra is signed on to be the at-risk operator for the arena. In Michael Hallmark’s rebuttal to Richard Meagher’s presentation, he discusses the scenario where a 17,500 arena with only 5 sellout events still drives a material portion of the Arena’s profits. I am not qualified to look behind Spectra’s, CSL’s or Hallmark’s numbers, but due to the fact that Spectra has done their own analysis and are at-risk (meaning, they bring equity to the table and have performance matrices that put that capital at risk throughout the life of their contract), they bear enough of the risk that they would be incentivized to set conservative benchmarks that they believe they can meet. Additionally, Jack Berry, President of Richmond Region Tourism, has remarked to the Commission on more than one occasion that if we have an arena of this size, due to our location we could attract numerous national touring events.

Necessity to Enable New Residential, Office, Commercial and Lodging:

In addition to the role that the Arena plays in attracting convention hotel, the City made a policy decision that an Arena and the other project improvements would produce an

entertainment and convention district that would enhance the growth and prosperity of the City.

Although as a whole we have heard evidence to suggest the size and scope of the Arena project as proposed are appropriate, the Commission does not have sufficient evidence to determine whether the Arena as proposed is necessary for the private development portion of the Project.

2. **Assumption:** Does the Navy Hill project and program pose a risk to:
 - a. City general fund or capital program?
(yes, no, no position, insufficient data)
(brief comment)

No.

With respect to the bonds contemplated to be issued to fund the construction of the Arena, the bonds will be non-recourse. According to reports by Davenport & Co., provided the actual project revenues are at least 46% of the projected project revenues, the project will “break even” and there is no risk they City would be asked to undertake a “bail out”. If the revenues are below that amount, there is a possibility the City would be asked to make up the shortfall. However, it was stated in the RFP and has been stated numerous times by the development team and members of the City’s administration that the City will not be asked to provide additional security for the bonds. The bondholders will have a clear understanding that the repayment of the bonds is limited solely to the TIF revenues.

If the Project falters in the first few years after the bonds are issued, the EDA could use money remaining in the Project Fund, Stabilization Fund and Capitalized Interest Fund to redeem bonds and the bondholders would be repaid the remaining amounts exclusively from whatever money flows through the Navy Hill Project Fund until the fund is closed. If the Project falters after construction there would be no money remaining in the Project Fund, but the bondholders would look to the Stabilization Fund and after that is depleted, they would be repaid exclusively from money flowing through the Navy Hill Project Fund. The Navy Hill Project Fund will be closed 30 years after the Arena is placed in service, so the amount of time those funds would be diverted from the General Fund is limited.

It should be noted, however, that because the TIF District includes existing real estate, any growth in revenues that would have gone to the City’s General Fund from existing real estate within the TIF District will not be contributed to the General Fund. Therefore, the Project will divert revenues from the General Fund and if the Project falters those revenues will not be recouped.

- b. City public school funding?

*(yes, no, no position, insufficient data)
(brief comment)*

No.

The same analysis outlined above also applies to the City's public school funding because public school funding is derived, in part, from the General Fund.

Public school funding is also derived from the Commonwealth. John Wack, Director of Finance for the City, reported to the Commission on the potential impact of the Project on school funding received from the Commonwealth. In particular, he addressed concerns that the Project, if successful, would result in decreased state funding for schools. The level of state funding a locality receives depends on the Composite Index of each locality. The Composite Index has an inverse relationship to the amount of state funding a locality receives; as the Composite Index goes down, the amount of funding goes up. Wack noted that Richmond's Composite Index is decreasing from the current .4925 to .4688 in the next biennium, even after two years of robust growth. The reason for the decrease is that the growth in Richmond is compared with growth in other parts of the state. Although Richmond is growing, it is not keeping pace with Northern Virginia and other areas of the state. This trend is expected to continue and therefore it is possible that Richmond's share of state funding will not be negatively impacted, even if the Project is successful. If the Project is successful enough to negatively impact the amount of state funding Richmond receives, it is possible the increased revenue flowing to the General Fund from the Project will offset any potential negative impact.

It should be noted, however, according to the slides shared with the Commission by Citigroup no excess revenues are projected to be available to the City until 2026 and the bonds are not expected to be paid off until 2040. This means that although the City is expected to begin to see a benefit from the TIF, under the current projections, that benefit is not fully realized for another 20 years.

- c. Other City businesses or City programs?
*(yes, no, no position, insufficient data)
(brief comment)*

No position.

3. **Projection:** Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena?
*(yes, no, no position, insufficient data)
(brief comment)*

Yes.

The contract structure for the Arena contemplates a ground lease of the property from the EDA to NHDC. NHDC will also enter into the Development Agreement with the City whereby NHDC promises to construct and operate the Arena. NHDC will enter into back-to-back contracts with various entities to construct and operate the Arena.

In order for the structure to be simplified, it is necessary for there to be one contract with NHDC. In order to get the public and private portions of the Project under the umbrella of one contract, the counterparty needs to be NHDC. NHDC will then enter into a series of back-to-back contracts with developer entities to carry out various project elements.

The reason a master lease was not pursued is because a master lease would contain cross- default provisions, making each party liable for the actions of the other parties. If one party defaults, they are all in default. This is not attractive to developers and is also not feasible from a financing standpoint. In addition, if there were to be a need down the road to make changes to the master lease, all of the parties would have to come together and agree to the terms of the change, which is cumbersome and not practical.

The City is also not using a ground lease structure for the private development because any ground lease would need to be over an extremely long period of time (e.g. 90 years) for the development to be something investors and banks would be willing to finance. That is so far out into the future it is functionally equivalent to transferring the property out of public hands.

For these reasons, the contract structure is valid and reasonable.

4. **Projection:** Are the tax district base value and revenue projections appropriate and accurate?

(yes, no, no position, insufficient data)

(brief comment)

No position.

5. **Projection:** Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market?

(yes, no, no position, insufficient data)

(brief comment)

No position.

6. **Projection:** Are the development schedules for individual project components realistic and achievable?

(yes, no, no position, insufficient data)

(brief comment)

No position.

7. **Costs:** Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing?

(yes, no, no position, insufficient data)

(brief comment)

Yes.

The underwriters for the bonds assisted the developer in structuring the bond issuance. The underwriters believe that in order to sell the bonds, the bondholders will require 1.5x debt service coverage on the bonds. The scope and structure of the TIF District are designed to produce that 1.5x debt service coverage.

8. **Costs:** Is there a cost estimate for the proposed infrastructure improvements?

(yes, no, no position, insufficient data)

(brief comment)

Yes.

9. **Costs:** Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:

- a. Cost of parcels and disposition of parcel purchase revenues?

(yes, no, no position, insufficient data)

(brief comment)

No position.

- b. Impact of rehabilitation tax credits on City, School and TIF revenues?

(yes, no, no position, insufficient data)

(brief comment)

No position.

- c. Impact of annual EDA grants on City budgets?

(yes, no, no position, insufficient data)

(brief comment)

No position.

- d. Impact on School funding and services?

(yes, no, no position, insufficient data)

(brief comment)

Yes.

In the first few years, the incremental revenues from existing real estate within the TIF District will be diverted to the Project and will not be available to the General Fund to support schools. However, according to current projections, the City will begin to see a benefit, in the form of excess revenues flowing to the General Fund, beginning in 2026.

e. Impact on City general fund and services

*(yes, no, no position, insufficient data)
(brief comment)*

Yes.

In the first few years, the incremental revenues from existing real estate within the TIF District will be diverted to the Project and will not be available to the General Fund to support schools. However, according to current projections, the City will begin to see a benefit, in the form of excess revenues flowing to the General Fund, beginning in 2026.

f. Cost of Navy Hill program and project oversight

*(yes, no, no position, insufficient data)
(brief comment)*

No.

In the Fiscal Impact Statement provided by Davenport, it was reported that the various City departments anticipated to play a role in the creation and administration of the TIF and construction of the Arena were polled to determine resources necessary carry out these increased responsibilities. The figures they reported seem on the low side, considering the complexity of the Project.

10. **Benefits:** Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable?

*(yes, no, no position, insufficient data)
(brief comment)*

Yes.

A clear benefit of VCU renting space in the Project is that they will pay rent, equivalent to what they would pay in taxes if they owned the building. Currently, as a tax-exempt entity, VCU does not pay taxes on the real estate they own in the City.

11. **Benefits:** Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable?

*(yes, no, no position, insufficient data)
(brief comment)*

Insufficient data.

Jack Berry, President of Richmond Region Tourism, represented to the Commission on multiple occasions that Richmond is in desperate need of a modern arena to attract national touring companies and to enhance the services offered by the Convention Center. He also stated that the hotel contemplated by the Development Agreement would assist the City in attracting larger and better-quality conferences and events. Promoters from the area also spoke at Commission meetings about the need for a larger facility to accommodate entertainers who want to come to Richmond but need a bigger facility. The Commission has not explored the veracity of these comments.

12. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable?

*(yes, no, no position, insufficient data)
(brief comment)*

Yes.

The developer, members of the City administration and the City Planning Department have all represented to the Commission that the parcels in the TIF District are not “developable” in their current form due to issues with current street infrastructure.

13. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable?

*(yes, no, no position, insufficient data)
(brief comment)*

No position.

14. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?

*(yes, no, no position, insufficient data)
(brief comment)*

No position.

15. **Benefits:** Are the minority procurement goals reasonable and appropriate?

*(yes, no, no position, insufficient data)
(brief comment)*

No position.

16. **Benefits:** Is mixed use development the right approach in this part of Downtown?

- a. Multifamily
- b. Retail
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- d. Hotel
- e. Blues Armory
- f. Entertainment

*(yes, no, no position, insufficient data)
(brief comment)*

No position.

17. **Impacts:** Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown?

(extended comments welcome)

The Navy Hill RFP and proposal, together with the ordinances before the City Council and the Commission are the result of hundreds of hours of hard work and dedication on the part of the City administration, the City Council and each of the developer entities. As a whole, they represent the most ambitious economic development effort the City has undertaken to date.

The proposal and ordinances contemplate significant public and private investment in the redevelopment of downtown Richmond. The Commission, with limited time and resources, endeavored to evaluate the assumptions, projections, costs and benefits of the overall Project. I read the voluminous materials received by and presented to the Commission with an eye to whether the Project is sound from a public finance perspective, bringing to bear my decade-worth of experience in public finance. I asked probing questions regarding the sources and uses of funds, the timing of public versus private investment, areas of potential weakness in the underlying contracts and the role of the various market participants in issuing, marketing and purchasing the Arena bonds.

Due to time constraints, the Commission members have each been called upon to offer our views on the potential impacts of the proposed Project on the City as opposed to engaging in a dialogue in order to reach a consensus on these potential impacts. I, personally, do not believe the Commission has had adequate time to delve into the assumptions, projections, costs and benefits of the overall Project. That said, throughout the course of our work, I have gained confidence in the professionals working on behalf of the City, the EDA and the developer entities. All of my questions have been answered to my satisfaction. If everything goes as expected, the Project would bring enormous benefits to the City.

We have the benefit at this time of momentum and excitement around the Project. Private entities are showing their enthusiasm for the City and the Project by providing capital commitments and up-front investment in the Project. The City and the developers put together a team of nationally recognized architects, construction contractors and arena operators to carry out the proposal. A group of highly-respected investment banking firms have agreed to

underwrite the Arena bonds, as a firm underwriting meaning, they are at risk if the bonds do not sell.

All of these factors reflect positively on the City and show that our City has the potential to do great things. I have not been able to grasp, however, whether the City is prepared to handle the avalanche of work a Project of this size and scope entails. I am concerned that the proposal does not provide adequate resources for the City to complete and maintain a Project of this size and complexity. It is also disconcerting that the public schools are adamantly opposed to the Project. If the City were to honor the public schools' request to "opt out" of participating in the Project, what would that do to the rest of the City's budget? Would it threaten the feasibility of the Project? The Commission simply has not had enough time to explore these and other important questions.

It appears that we have a significant moment for the City of Richmond, where we have private and public decision makers at the table trying to figure out how to redevelop downtown in a clear and cohesive way that benefits both the citizens of Richmond and the private sector. In the absence of the Proposal, if downtown were to be developed in a one-off manner like Scott's Addition it does not appear that the City would get the housing, jobs creation, transportation center and minority business opportunities presented by the Proposal. I do not feel, however, that we have been afforded adequate time to determine if these potential public benefits are actually going to be realized through the Proposal and, if so, are there mechanisms to ensure these programs benefit the citizens of Richmond who need them the most.

Assessment of the Navy Hill Development Process

Ways to enhance the process (extended comments welcome)

- What recommendations would improve the proposed development contemplated by the ordinances?
- What recommendations would improve the proposed ordinances?
- Could a revised RFP allow for a more competitive process for individual parcels and/or projects?

Other recommendations for economic development in the area

Other considerations

Conclusion

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Dr. Hakim J. Lucas
Navy Hill Development Advisory Commission Worksheet
December 16, 2019

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Commission's Assessment of the Navy Hill Development Proposal

Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption:** Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?

(yes, no, no position, insufficient data)

YES

(brief comment)

The CSL study, the investment and commitments of Spectra, the comments of the Director of Richmond region Tourism, Jack Berry, the VCU support letter and the numerous citizen comments in support of job creation all lend to the need to redevelop the arena as part of the project.

2. **Assumption:** Does the Navy Hill project and program pose a risk to:
- a. City general fund or capital program?
(yes, no, no position, insufficient data)

NO

(brief comment)

The non-recourse nature of the bonds, the 46% risk threshold, combined with the legal covenants, the City Council control of the funds and the City multi-agency approach to controlling agency issues, any risks associated seem sufficiently mitigated.

- b. City public school funding?
(yes, no, no position, insufficient data)

NO

(brief comment)

The City has stated its continued support of school funding and has demonstrated this projected will only increase funding to public schools. Based on the testimonies given, The School Board's resolution, as stated by the presenter, requests only to be involved in how the project will impact RPS. However, the school's finance staff agrees there is no negative impact.

- c. Other City businesses or City programs?
(yes, no, no position, insufficient data)

YES

(brief comment)

The social benefits related to the project must be concretized prior to financial closing. The risk is time. Specifically, how long it will take the City to develop a concrete and acceptable plan for ensuring social benefits are delivered.

3. **Projection:** Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena?
(yes, no, no position, insufficient data)

YES

(brief comment)

The operator is assuming all risk and operating losses. From information shared they will also invest \$8M.

4. **Projection:** Are the tax district base value and revenue projections appropriate and accurate?

(yes, no, no position, insufficient data)

YES

(brief comment)

Since the project seems to be designed with a surplus, with flow back to the City – the assumptions are appropriate. The Council’s may determine to request its consult to update projections, as part of their scope of work.

5. **Projection:** Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market?

(yes, no, no position, insufficient data)

YES

(brief comment)

The studies have been provided by reputable firms, and the assumptions have been used for other structured and organic projects across the City. The basic figures represent market rate analysis that can be applied to this and future projects. Additionally, the documents note all private development will have a 40% equity component, an indicator of investor/market confidence in these projections.

6. **Projection:** Are the development schedules for individual project components realistic and achievable?

(yes, no, no position, insufficient data)

Yes

(brief comment)

The GRTC represents a single outlier. They need to reconcile their planning horizon with that of the City.

7. **Costs:** Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing?

(yes, no, no position, insufficient data)

YES

(brief comment)

As has been demonstrated by John Garner in his reports, the TIF bond financing is reasonable with various mitigated risk factors, anchored in the turbo repayment function, and the arena as anchoring project the TIF will provide a vehicle for increase private investment and social benefit. The City needs to solidify these social benefits as stated above.

8. **Costs:** Is there a cost estimate for the proposed infrastructure improvements?

(yes, no, no position, insufficient data)

YES

(brief comment)

As stated in the development agreement there is no cap given for improvements. Therefore, all costs are covered by the developer and no estimate needed. It is recommended that the developer share this information with the Council, City and residents, so that the value proposition and tens of millions of savings to the City can be clear, reviewed and appreciated.

9. **Costs:** Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:

- a. Cost of parcels and disposition of parcel purchase revenues?

(yes, no, no position, insufficient data)

YES

(brief comment)

Clearly stated in development agreement.

- b. Impact of rehabilitation tax credits on City, School and TIF revenues?

(yes, no, no position, insufficient data)

YES

(brief comment)

This is considered in the Davenport report and risks mitigated.

- c. Impact of annual EDA grants on City budgets?
(yes, no, no position, insufficient data)

INSUFFICIENT

(brief comment)

It is recommended that City Staff review prior to final agreement.

- d. Impact on School funding and services?
(yes, no, no position, insufficient data)

YES

(brief comment)

No negative impact.

- e. Impact on City general fund and services
(yes, no, no position, insufficient data)

YES

(brief comment)

The reports, data and testimony given have provided necessary information and provide some insight into how risk will be mitigated. It is recommended that the City explore use of third-party permit review and inspections a source of relief for building department.

- f. Cost of Navy Hill program and project oversight
(yes, no, no position, insufficient data)

INSUFFICIENT

(brief comment)

As the City's role in the project is that of landlord, in the case of arena and armory, furthermore, the City is a seller in the land transaction – the project does not seem to be overly taxing to the City.

10. **Benefits:** Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable?
(yes, no, no position, insufficient data)

YES
(brief comment)

The testimony given by VCU is that they will be a tenant.

11. **Benefits:** Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable?
(yes, no, no position, insufficient data)

YES
(brief comment)

12. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable?
(yes, no, no position, insufficient data)

YES
(brief comment)

13. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable?
(yes, no, no position, insufficient data)

INSUFFICIENT
(brief comment)

Seems as if GRTC's new leadership needs to present the City with a revised strategic vision, since the one articulated by previous leadership is contested.

14. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?
(yes, no, no position, insufficient data)

YES – documented
INSUFFICIENT – accordance to policies and procedures
(brief comment)

The City needs to clarify how the program will be implemented.

15. **Benefits:** Are the minority procurement goals reasonable and appropriate?
(yes, no, no position, insufficient data)

YES – by industry standards

(brief comment)

However, the City needs to ensure that it does all it can to reach AND EXCEED the goals.

16. **Benefits:** Is mixed use development the right approach in this part of Downtown?

- a. Multifamily
- b. Retail
- c. Restaurant
- d. Hotel
- e. Blues Armory
- f. Entertainment

(yes, no, no position, insufficient data)

YES

(brief comment)

No other strategy is feasible to meet demand of the project. Additionally, the development history of this City has shown a government actor or destination attractor is needed to make development happen in this area.

17. **Impacts:** Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown?

(extended comments welcome)

YES. See above responses to all questions related to this issue.

Assessment of the Navy Hill Development Process

Ways to enhance the process (extended comments welcome)

- What recommendations would improve the proposed development contemplated by the ordinances?
 1. We would have benefited from more time discussing ordinances, versus presentations from outside alleged experts
 2. The analysis and facts seemed disjointed, would have benefited from hearing from main players first
 3. Would have benefitted from reduced amount of public hearings to work on report
 4. Would have benefited from greater input and advice earlier from commission members into how we would work

- What recommendations would improve the proposed ordinances?
1. Please see comments above
 2. GRTC and transportation issues need resolution
 3. The workforce development plan needs to be strengthened to maximize minority and underemployed citizen participation
 - Could a revised RFP allow for a more competitive process for individual parcels and/or projects?
 1. NO. I reject the belief that the scope of our review is to question the RFP process and policy decisions of City elected representatives. Those who want to question the RFP process, should have done so when the RFP was released. To do so now, is too much too late and demonstrates a problem in agency. From a real estate perspective none of the property can be marketed and sold without arena demo, paying off existing debt, resub dividing all of the parcels and building millions of dollars in infrastructure.

Other recommendations for economic development in the area
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December 16, 2019

Responses by Mimi Sadler 12/23/2019

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Commission's Assessment of the Navy Hill Development Proposal

Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption:** Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?

No.

The NH proposal says that the project components within the 10-block development area are co-dependent – that the development is conceived as an all or nothing deal. If the proposed project components are co-dependent, I believe the project is wrongly conceived.

2. **Assumption:** Does the Navy Hill project and program pose a risk to:
 - a. City general fund or capital program?
Yes
 - b. City public school funding?
Yes

- c. Other City businesses or City programs?

Yes

- 3. **Projection:** Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena?

Insufficient data

Information necessary to respond to this question is in a state of flux with MuniCap projections being corrected and bond interest rates changing constantly.

- 4. **Projection:** Are the tax district base value and revenue projections appropriate and accurate?

Insufficient data – data is in a state of flux.

The base value of the TIF district does not yet seem to incorporate all data (such as real estate tax abatements). Revenue projections have been updated by MuniCap several times and are therefore difficult to assess. Gerner analysis indicates the base value and revenue projections are questionable.

- 5. **Projection:** Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market?

No position.

The commission has not focused on this issue.

- 6. **Projection:** Are the development schedules for individual project components realistic and achievable?

No position.

The development schedules appear to be overly optimistic.

- 7. **Costs:** Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing?

No.

While I believe that the proposed TIF area might generate the funds required to pay off the bonds, I do not think it's reasonable to create an 80 block TIF area to pay for an 17,500 seat area.

- 8. **Costs:** Is there a cost estimate for the proposed infrastructure improvements?

No position.

The commission has not focused on this issue. It's too early to have a true fixed price in today's volatile market.

- 9. **Costs:** Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:

- a. Cost of parcels and disposition of parcel purchase revenues?

No.

More accurate assessments of the parcels being conveyed to the developer should be undertaken prior to City Council's vote on the ordinances.

- b. Impact of real estate tax abatements on City, School and TIF revenues?

No.

The impact of the real estate tax abatements is not known because the abatements have not been incorporated into the MuniCap reports.

- c. Impact of annual EDA grants on City budgets?

No.

However, there is an unacceptable risk that the bond payments will negatively impact the City's budget and general fund.

- d. Impact on School funding and services?

No.

- e. Impact on City general fund and services

No.

- f. Cost of Navy Hill program and project oversight

No.

The costs of project oversight to the city appear to be underestimated.

10. **Benefits:** Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable?

No.

Based on a presentation by NH and the City, the facility to be leased to VCU will be offices, day care, and miscellaneous services. It appears that the proposed facility's use is changing from what was previously proposed and the quantitative and qualitative benefits are not yet identified.

11. **Benefits:** Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable?

No.

The need for an arena of this size has not been established. There is not a public consensus that this is a need (a majority of citizens speaking at the public hearings and sending emails to the commission do not feel that this is a need). Just having the biggest arena in the state is not a demonstrated need.

12. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable?

Yes.

...Although less of the street grid is being restored than was previously proposed. The Leigh Street regrading is no longer proposed, which is a significant reduction in the project's benefits.

13. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable?

No.

GRTC says it cannot pay for the improvements/tenant upfit. It is clear that a new transit facility is needed. But its parameters have not been adequately vetted by GRTC. The new GRTC transit facility must be planned to meet location and configuration requirements determined by GRTC.

14. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?

No position.

I cannot answer this question relative to City policies and procedures.

The affordable housing program for the project does not adequately address the city's affordable housing crises given the amount of public dollars invested in the project.

Housing needs addressed in NH development are currently being met by private development.

15. **Benefits:** Are the minority procurement goals reasonable and appropriate?

Yes, in the sense that the goals are lofty. No in the sense that the goals cannot possibly be filled in the city.

The city does not have the capacity to meet the \$300,000,000 MBE participation goals. Assuming the procurement goals will be filled regionally the goal may be achievable.

16. **Benefits:** Is mixed use development the right approach in this part of Downtown?

- a. Multifamily
- b. Retail
- c. Restaurant
- d. Hotel
- e. Blues Armory: food market, entertainment, conference facilities
- f. Entertainment

Yes.

Mixed use development is the right approach. But Civic, Government, and adequate parking should be added to this list.

17. **Impacts:** Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown?

No

... Unless the financial burden is shared by the Henrico and Chesterfield Counties. Or unless the developer assumes more of the financial burden. There is no demonstrated need for a City-funded 17,500 seat arena.

Assessment of the Navy Hill Development Process

Ways to enhance the process (extended comments welcome)

- What recommendations would improve the proposed development contemplated by the ordinances?

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.

- What recommendations would improve the proposed ordinances?

Significantly reduce the size of the TIF

Include in the project master plan the architectural approaches that will knit the new development into the existing city fabric. Navy Hill has been compromised over time by institutional and infrastructure encroachment. A project in this area is a critical opportunity to address social and environmental equity in the city.

- Could a revised RFP allow for a more competitive process for individual parcels and/or projects?

The RFP was too narrowly written; excluding other potential input for highest and best use of the project site.

It was a mistake to make a 17,500 seat arena a technical requirement for responses to the RFP. A smaller arena or amphitheater would serve the city's needs.

Other recommendations for economic development in the area

Other considerations

The City and the Developer have consistently said that the project is being developed at “no cost to the city.” The 80-block TIF area would divert incremental tax revenue from the TIF area to pay for a new arena for 30 years which will deplete the City’s general fund. To prioritize funding a new 17,500 seat arena over addressing crises in the city’s public-school system and the shortage of affordable housing for low-income families would be a failure of public policy.

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Michael J. Schewel
Navy Hill Development Advisory Commission Worksheet
December 16, 2019

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Risk matrix

Additional background

Commission's Assessment of the Navy Hill Development Proposal

Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption:** Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project? **Yes.**

(yes, no, no position, insufficient data)

(brief comment)

2. **Assumption:** Does the Navy Hill project and program pose a risk to:
 - a. City general fund or capital program?

Any project can fail, and all projects have risks. But this project does not pose a material risk to the City's general fund. And not doing this project poses an equal risk to the City's general fund – the risk that millions of dollars of non-tax paying

property will remain in that condition for another generation, thus impacting the City's ability to pay for schools and other public services.

3. *(yes, no, no position, insufficient data)*
(brief comment)

City public school funding? **Any project can fail and all projects have risks. Although I do not think this project poses a material risk to public school funding, I think the project should be revised to include additional protections for school funding.**

(yes, no, no position, insufficient data)
(brief comment)

- a. Other City businesses or City programs? **No, but failure to undertake this project poses a number of risks to other City programs – affordable housing, minority contracting, economic development, to name a few.**
yes, no, no position, insufficient data)
(brief comment)
4. **Projection:** Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena? **They are valid and reasonable, but that does not mean they are infallible. Other reasonable assumptions can be constructed. The City has a poor success rate with large-scale economic development projects. The burden is on the City to demonstrate why this project is different from the other projects that failed to produce the predicted benefits.**
(yes, no, no position, insufficient data)
(brief comment)
5. **Projection:** Are the tax district base value and revenue projections appropriate and accurate? **Assuming that the most recent Municap numbers reflect the rehab and other tax credits, and the EDA grants, I believe they are appropriate. Thirty year projections are always wrong and rarely accurate, but they are just as likely to be wrong on the low side as on the high side.**
(yes, no, no position, insufficient data)
(brief comment)
6. **Projection:** Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market? **Insufficient data.**
(yes, no, no position, insufficient data)
(brief comment)
7. **Projection:** Are the development schedules for individual project components realistic and achievable? **Yes, but that does not mean they will be achieved. However, they do appear to be achievable. As for any development project, the City should assume**

that the project schedule is likely to take longer than projected. Delays almost always occur in projects of this complexity.

(yes, no, no position, insufficient data)

(brief comment)

8. **Costs:** Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing? **Yes, but they are not risk free.**

(yes, no, no position, insufficient data)

(brief comment)

9. **Costs:** Is there a cost estimate for the proposed infrastructure improvements? **For some of the infrastructure improvements, like demolition of the Coliseum, yes. For other infrastructure improvements, I do not know, so insufficient data.**

(yes, no, no position, insufficient data)

(brief comment)

10. **Costs:** Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:

- a. Cost of parcels and disposition of parcel purchase revenues? **Yes.**

(yes, no, no position, insufficient data)

(brief comment)

- b. Impact of rehabilitation tax credits on City, School and TIF revenues? **If reflected in the revised Municap numbers, yes.**

(yes, no, no position, insufficient data)

(brief comment)

- c. Impact of annual EDA grants on City budgets? **If reflected in the revised Municap numbers, Yes.**

(yes, no, no position, insufficient data)

(brief comment)

- d. Impact on School funding and services? **Yes, but additional protections should be added as noted below.**

(yes, no, no position, insufficient data)

(brief comment)

- e. Impact on City general fund and services **Yes.**

(yes, no, no position, insufficient data)

(brief comment)

- f. Cost of Navy Hill program and project oversight **Probably no.**

(yes, no, no position, insufficient data)

(brief comment)

11. **Benefits:** Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable? **Yes.**
(yes, no, no position, insufficient data)
(brief comment)
12. **Benefits:** Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable? **Yes.**
(yes, no, no position, insufficient data)
(brief comment)
13. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable? **I don't think of these benefits as being clearly quantifiable, nor do I think they should be judged on a quantifiable basis. But the qualitative benefits are clear and reasonable.**
(yes, no, no position, insufficient data)
(brief comment)
14. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable? **Again, this isn't a quantifiable matter. And the status of the transit facility is generally unclear. But note that the developer must fulfill its obligations, such as they are, regarding the transit facility as a condition precedent to closing.**
15.
(yes, no, no position, insufficient data)
(brief comment)
16. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?
The developer is still short a few percentage points on achieving that. Assuming those additional percentages are achieved, then the answer is Yes.

(yes, no, no position, insufficient data)
(brief comment)
17. **Benefits:** Are the minority procurement goals reasonable and appropriate? **Yes, but they will be difficult to achieve without very proactive management.**

(yes, no, no position, insufficient data)
(brief comment)
1. **Benefits:** Is mixed use development the right approach in this part of Downtown? **Yes**
- a. Multifamily
 - b. Retail
 - c. Restaurant
 - d. Hotel

- e. Blues Armory
- f. Entertainment

*(yes, no, no position, insufficient data)
(brief comment)*

2. **Impacts:** Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown? **Yes, when combined with the other elements of the Navy Hill project, it will be a sound public investment.**

(extended comments welcome)

Assessment of the Navy Hill Development Process

Ways to enhance the process (extended comments welcome)

- What recommendations would improve the proposed development contemplated by the ordinances? **Three recommendations:**
 - That two conditions precedent to the Bond closing be added that say, in effect, (i) that the Developer will have demonstrated that it has in place with the Contractor and other applicable parties, a plan reasonably satisfactory to the City regarding the implementation and satisfaction of the minority business goals of the [Development Agreement], and (ii) that Section 6.1(b)(xx) of the Development Agreement be modified to provide that the (xx) the delivery of the final Financial Model to the City that shows no material adverse change from that applicable at the time City Council approved the Navy Hill Ordinances.
 - That the Development Agreement be amended in such a fashion that the Developer commits to give priority to housing voucher holders for the Affordable Housing in the Project. That additional protections be added for the benefit of school funding.
 - That as a condition precedent to the Bond closing or otherwise in advance of final approval, the City obtain information regarding the projected annual major maintenance and renewal costs for the Arena, and confirm that those costs will be matched by reasonably projected revenues into the Renewal Work fund.
- What recommendations would improve the proposed ordinances? **See above.**

- Could a revised RFP allow for a more competitive process for individual parcels and/or projects? **No. If a new RFP is issued, then three years from now, we would be in the exact same position we are in now but with less likelihood of a successful project because the private sector support for another project will be very (VERY) unlikely to match its support for this project. A new RFP would not yield a more competitive proposal, but it would certainly yield a weaker proposal.**

Other recommendations for economic development in the area

Maintain the TIF district but use it to generate funds only for the demolition of the Coliseum and restoration of the street grid.

Regardless of the outcome of the Navy Hill project as a whole, (i) make Parcel D available for sale to a private party for use by VCU hospital for a taxable project substantially as contemplated in the Navy Hill Project and on the schedule contemplated in the Navy Hill Project, (ii) make available for sale, or long term financeable ground lease, to the highest bidder, some or all of the parcels that would be included in the Navy Hill project, for individual parcel development (as compared to a mandated comprehensive multi-parcel development like the Navy Hill project) consistent with the City's master plan, within a defined and reasonable time schedule, and (iii) in any case, consider approving the (I think six) ordinances that were approved by the Planning Commission for reconfiguring the development area within the Navy Hill project so that, even if Navy Hill Project is not done, these parcels will be developable by others.

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Navy Hill Development Advisory Commission Worksheet
Corey D. B. Walker
December 22, 2019

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Commission's assessment/evaluation (assumptions, risks, critical issues, recommendations, etc.)

1. **Assumption:** Is the approximately 17,500 seat Arena, as proposed in the Navy Hill Project Ordinances, necessary in order to enable the new residential, office, commercial and lodging included in the Navy Hill Project?

(yes, no, no position, insufficient data) No

(brief comment)

From the information provided the Commission, the policy decision to advance a new publicly-financed 17,500 seat arena without fully exploring other alternatives (i.e. relocation, rehabilitation, etc.) cannot be supported.

2. **Assumption:** Does the Navy Hill project and program pose a risk to:

- a. City general fund or capital program? Yes

(yes, no, no position, insufficient data)

(brief comment)

Given the Commission's review and evaluation of the data, the proposed project does pose a risk to the City's general fund.

- b. City public school funding? Insufficient data
(yes, no, no position, insufficient data)
(brief comment)
 The proposed project may impact public school funding, however there is insufficient data available to make a full assessment.
- c. Other City businesses or City programs?
(yes, no, no position, insufficient data) Yes
(brief comment)
 The proposed project does pose a risk to other City businesses, particularly the highly competitive restaurant sector.
3. **Projection:** Are the financial and other assumptions underlying the proposed Arena valid and reasonable, including the contract structure and risk profile for constructing and operating the Arena?
(yes, no, no position, insufficient data) No position
(brief comment)
 The policy decision to create a synthetic TIF district on this scale is not advisable. The changing nature of the information provided to the Commission, the syncretistic nature of the development in light of historical and comparable data available, and the unknowns do not support a robust position on the assumptions underlying the proposed arena. The 2016 arena feasibility study also raises questions about proposed arena size, market demand, and program demand.
4. **Projection:** Are the tax district base value and revenue projections appropriate and accurate?
(yes, no, no position, insufficient data) No
(brief comment)
 From the information provided to the Commission, the value and revenue projections for the increment financing area do not align with prudent financial projections. The inclusion of the Hunden Uplift of \$404.6 million and projected restaurant revenues raises questions about the optimism of revenue projections.
5. **Projection:** Are unit and gross revenue estimates for retail, restaurant, office and hotel uses appropriate to the Richmond market?
(yes, no, no position, insufficient data) No position
(brief comment)
 See response to #4
6. **Projection:** Are the development schedules for individual project components realistic and achievable?
(yes, no, no position, insufficient data) Insufficient data
(brief comment)
 Given that this is a “synergistic” development, there are several outstanding issues that have yet to be resolved to determine if this is a realistic and achievable project.

7. **Costs:** Are the financial and other assumptions underlying the approximately \$300 Million Arena TIF bond financing valid and reasonable, including the scope and structure of the TIF District and TIF Financing?
(yes, no, no position, insufficient data) No
(brief comment)
 The scope and structure of the increment financing area and other financial aspects of the proposed development face a number of challenges which have been highlighted by work products and presentations to the Commission.
8. **Costs:** Is there a cost estimate for the proposed infrastructure improvements?
(yes, no, no position, insufficient data) No position
(brief comment)
9. **Costs:** Have the fiscal impacts of the Navy Hill project and program been reasonably estimated, including:
 The Commission's evaluation of the fiscal impacts of the proposed project continues to suffer from insufficient data, particularly to impacts for City services.
- a. Cost of parcels and disposition of parcel purchase revenues?
(yes, no, no position, insufficient data) No
(brief comment)
 - b. Impact of rehabilitation tax credits on City, School and TIF revenues?
(yes, no, no position, insufficient data) No
(brief comment)
 - c. Impact of annual EDA grants on City budgets?
(yes, no, no position, insufficient data) No
(brief comment)
 - d. Impact on School funding and services?
(yes, no, no position, insufficient data) No
(brief comment)
 - e. Impact on City general fund and services
(yes, no, no position, insufficient data) No
(brief comment)
 - f. Cost of Navy Hill program and project oversight
(yes, no, no position, insufficient data) No
(brief comment)
10. **Benefits:** Are the quantitative and qualitative benefits of the proposed VCU facility documented and reasonable?
(yes, no, no position, insufficient data)
(brief comment)

The recently communicated changes in the proposed VCU facility require further data and analysis.

11. **Benefits:** Are the quantitative and qualitative benefits of the proposed 17,500 seat arena documented and reasonable?

(yes, no, no position, insufficient data) No

(brief comment)

Absent a full cost benefit analysis, the policy decision to advance a new arena and potential associated quantitative and qualitative benefits cannot be justified.

12. **Benefits:** Are the quantitative and qualitative benefits of a restored historic street grid documented and reasonable?

(yes, no, no position, insufficient data) Yes

(brief comment)

The desire for a pedestrian friendly development has been a feature of the City's 2000-2020 Master Plan as well as the 2009 Downtown Plan. The advantages of a restored historic street grid to are consistent with these plans and are consistent with dominant trends in urban planning and environmental consciousness.

13. **Benefits:** Are the quantitative and qualitative benefits of a new GRTC transit facility documented and reasonable?

(yes, no, no position, insufficient data) Yes

(brief comment)

There is a need for a new and fully accommodating GRTC transit facility. The outstanding questions regard location, financing, and alignment with strategic plan for GRTC. With the last communication from GRTC, more data and analysis are needed in order to respond to this question.

14. **Benefits:** Are the quantitative and qualitative benefits of the affordable housing program documented and in accordance with City policies and procedures?

(yes, no, no position, insufficient data) No

(brief comment)

At a minimum, the affordable housing program offered by the development needs to meet and/or exceed the minimum standards recently passed by Council. Given the historic and ongoing critical need for affordable housing for those making less than 50% of the median income for the City of Richmond, the affordable housing component is, to say the least, less than desirable.

15. **Benefits:** Are the minority procurement goals reasonable and appropriate?

(yes, no, no position, insufficient data) Yes

(brief comment)

The minority procurement goals are reasonable and appropriate. The program design needs more development and City oversight needs to be clear and robust.

16. **Benefits:** Is mixed use development the right approach in this part of Downtown?
- a. Multifamily
 - b. Retail
 - c. Restaurant
 - d. Hotel
 - e. Blues Armory
 - f. Entertainment

(yes, no, no position, insufficient data)

(brief comment)

Mixed use development is an appropriate approach to this area of Downtown. Aspects of this approach has informed planning efforts for this area since the 1946 Bartholomew Master Plan for the City. The newest aspect of this plan is arguably the use of increment area financing.

17. **Impacts:** Considering the assumptions, projections, costs and benefits of the overall Navy Hill project, is the likely impact of a publicly financed, \$300 million arena a sound and reasonable public investment in the redevelopment of Downtown?

(extended comments welcome)

The Commission has not heard any responses from citizens and public officials who do not want the City to be a place for where everyone thrives and enjoys a high-quality standard of living. Indeed, the Commission's efforts reflect this broad sentiment found throughout the City. Among the key issues facing the Commission regarding the proposed development are issues relative to the development scheme, financing, and impact on City efforts and strategic priorities, particularly education, housing, and poverty. A one or none process whereby no other alternatives are presented and analyzed does not do justice to the City and should not serve as the basis to support a publicly financed arena as well as additional public investments in redeveloping Downtown.

The financialization of urban development present some distinctive challenges for the City. The use of tax increment financing may introduce bias in the process of development as well as preferences for particular developers and projects which may have deleterious effects on the overall process of development across the City. The City can improve this process by first establishing a policy for the use of increment financing aligned to strategic policy objectives of the City that aims to mitigate risk exposure to the City, particularly to public education, provides clear and objective methods and criteria for evaluation, and supports broad citizen participation throughout the development process and is supported by the majority citizens of the City.

Assessment of the Navy Hill Development Process

Ways to enhance the process (extended comments welcome)

- What recommendations would improve the proposed development contemplated by the ordinances?
- What recommendations would improve the proposed ordinances?
- Could a revised RFP allow for a more competitive process for individual parcels and/or projects?

Other recommendations for economic development in the area

Other considerations

Conclusion

Appendices

Commission Ordinance

Commission Work Products

Navy Hill Development Advisory Commission Website Information

Other Relevant Reports

Navy Hill Advisory Commission
Remarks on Process

Corey D. B. Walker
December 4, 2019

The Navy Hill Advisory Commission “is created for the purpose of providing Council with advice concerning the development contemplated by the Ordinances.” The language from the ordinance establishing the commission sets a broad agenda for the Commission in that the scope of the work is focused on the “development contemplated by the Ordinances.” The Commission organized its program of work relative to this charge and associated duties as members continue to review aspects of the contemplated Navy Hill development.

The Commission, relatively early in its work, realized the need for more information to fully carry out its duty. Indeed, the Commission has received and continues to receive additional information from the City relative to the contemplated development. As part of this advisory process, the Commission continues to assiduously review all relevant information pertaining to the Navy Hill development.

As a member of the Commission, I have been preoccupied with several issues relative to the process of the proposed development. That is, I have focused on issues that have framed and informed the work of the Commission relative to the development. In our November 15, 2019 meeting I presented a proposed framework for the report of the Commission. In that framework, I included a section on the program of work of the Commission. This proposed section is designed to provide Council with an understanding of the challenges faced by the Commission. These challenges revolved around the following areas: Timeline and scope of the Commission’s work; Context of the Commission’s work; and Governance, Democracy, and Development. I will briefly underscore some of the issues that are consolidated within these broad themes.

Timeline and scope of the Commission’s Work

The limited timeframe and scope of the Commission’s work has proven challenging. In order to thoroughly complete a review of the “development contemplated by the ordinances” necessitated the Commission reviewing the enabling documents of the ordinances as well as the data and information that informed the logic, assumptions, and decisions made that form and inform the “development contemplated by the ordinances.” This goes to the very issue of how we arrived at this development, why this development and the process used get to this *singular* course of action. Unfortunately, the limited timeframe and scope of the Commission’s work mitigates against robust citizen engagement due to competing personal, professional, and other commitments. The use of overly technical language and discourse renders opaque certain critical dimensions of this project that can and should inform a major public project that will impact all areas of the city.¹ The work of the Commission requires a commitment of time and resources from a citizen advisory body is tremendous. Background information, guiding assumptions,

¹ On this point, see for example Josh Pacewicz, “The City as Fiscal Derivative: Financialization, Urban Development, and the Politics of Earmarking,” *City & Community* 15.3 (2016), 264-288 and Rachel Weber, “Selling City Futures: The Financialization of Redevelopment Policy,” *Economic Geography* 86.3 (2010), 251-274.

logical connections, data and methods, process and procedural matters fall within the purview of the Commission's charge. Thus, a limited timeframe and scope is a barrier to a full and robust review of the "development contemplated by the ordinances."

Context of the Commission's Work

The Commission is an advisory body by statute charged with providing advice to the City Council on the "development contemplated by the ordinances." In undertaking this work, the Commission takes seriously its advisory role in this important process. In its advisory capacity, the Commission must develop a solid basis for its analysis. This necessarily involves testing and critiquing assumptions, data, information, language, and judgements that form and inform the "development contemplated by the ordinances." *In so doing, the Commission must go beyond mere forms of advocacy to developing substantive frames of critical analysis to understand and make sense of the "development contemplated by the ordinances."* The advisory role is distinctive from the advocacy role hence the form of the Commission's meeting in voluntarily disclosing any potential conflicts of interest at each meeting. *The advisory role also cannot be fully realized with data and information deployed for advocacy.* The Commission must constantly and consistently adjudicate between competing regimes of power, knowledge, authority, and recognition in the interests of all citizens. This is a challenging context for a citizen advisory body, particularly, in a charged political moment fraught with tensions regarding trust, authority, legitimacy, authenticity, and competing notions of how best to achieve the common good.

Governance, Democracy, and Development

The Commission is part of the broad tapestry of the democratic fabric of our City. As such, it forms a unique space in which the process of decision making is potentially open to new perspectives, insights, and opportunities that can critically inform the "development contemplated by the ordinances." The Commission is conscientious about modeling ways of democratizing governance in the best interests of our fellow citizens and the City. The Commission recognizes that "the selective and unsystematic inclusion of organized actors, in combination with increasingly dispersed, fragmented and polycentric systems of decision making are eroding the legitimation basis of collective institutions."² Hence the Commission has emphasized governance in the "development contemplated by the ordinances" and ensuring the voices, knowledges, and perspectives of citizens, representatives, and public officials are responsive to the needs, priorities, and aspirations of the City.

Given the intense polarization in American politics, the Commission presents a unique opportunity to model substantive democratic deliberation by citizens, elected officials, and public officials and administrators, and business professionals. Given the deep historic and contemporary divides in our city, the Commission's work is not isolated from the conflicts – both latent and overt – that are animated by issues of race, gender class, culture, and status. Indeed, the Commission's work has been and will continue to be critically informed by the

² Jan Erling Kalusen and David Sweeting, "Legitimacy and community involvement in local governance" in *Urban Governance and Democracy: Leadership and Community Involvement*, eds. Michael Haus, Hubert Heinelt and Murray Stewart (New York: Routledge, 2005), 214.

imperative to adjudicate between competing regimes of power, knowledge, authority, and recognition in the interests of all citizens. The Commission's work will necessarily involve implications for both policy and practice.

Richmond is beset by socioeconomic polarization and a deep history of racial exclusion. A critical question for us is how do we build and sustain models of democratic governance that contribute meaningfully to building cultures of trust, responsibility and accountability in creating a truly one Richmond? The work of the Commission in this regard is not theoretical, but intensely practical. It is about the very practice of democracy.