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To CITY OF RICHMOND, VIRGINIA
From DAVENPORT & COMPANY LLC
Date AUGUST 30, 2019
Subject COMMONLY ASKED QUESTIONS RELATED TO THE NAVY HILL PROJECT

1) How would you describe the Navy Hill project from an economic development standpoint?

- This project is a transformational project for the City. Effectively taking a depressed and deteriorating area and turning it into an economic engine for the City.
- This project would catapult Richmond's stature as one of America's great up and coming cities.
- Investment attracts more investment, but sometimes it is tough to get the ball rolling. TIF style districts and related financial tools allow the public and private sectors to get the development ball rolling.
- When this happens, other developers take notice, see the strong local leadership as supportive of investment and gain confidence in Richmond as a place for development.
- However, if an area languishes without investment, or strong ideas are brought down by internal dissonance, this message also goes out to the development world through news articles and other means.
- Many cities, like Louisville, Indianapolis, Chicago, and others have utilized TIF style structures to revitalize struggling areas with great success. These are just a few examples of where TIF has worked well to turn the tide from disinvestment and a move to the suburbs or other cities, to reinvestment in the downtown area.

2) Have TIF style financings been commonly used across the Country and Virginia? What is their track record?

- Since the year 2000 well over 2,500 TIF style financings totalling over \$39.2 billion have been completed nationwide.
- There have been numerous used across Virginia, including nearby for Short Pump Town Center (Henrico County) and Stone Bridge, formerly Cloverleaf Mall (Chesterfield County).
- The very fact that this funding approach has been used several thousand times underscores the relative success of this structure.

- TIF style structures are self-policing and follow the “but for” test. But for the new TIF, the project would not occur and, but for the project, the TIF would not receive incremental taxes because the project would not exist.

3) What is the benefit of a TIF style structure to a local government?

- No existing (current revenues) of the local government are diverted to pay the bonds.
- This structure allows Non-recourse bonds (meaning that if the incremental revenues are insufficient to repay the bonds, the bond owners cannot require the City to make up any shortfalls) to be issued without a moral obligation or general obligation of the City.
- This structure does not reduce the City’s debt capacity, but, to the contrary, increases the capacity that can be used for other priorities (schools, roads, etc.).

4) Are Incremental Financing Areas often larger than the immediate area surrounding the capital projects funded with a TIF style financing?

- Incremental financing areas come in all shapes and sizes. In some instances, they are as large as entire locality and others are more narrowly drawn.
- The City of Indianapolis has successfully used TIFs for over 25 years. Virtually, the entire downtown core of the City containing over 2,000 tax parcels with incrementally generated assessed value of \$2.8 billion makes up a single TIF area.
- It is mostly the case that incremental areas are in fact, districts. The success of one project is supposed to help make other projects in the district more viable (like if your neighbor builds a nicer, higher value home next to you, your value increases).

5) What is the benefit of the Arena to the overall project and the City? Would the private development be successful without the Arena?

- The Arena serves as the nucleus of the overall project.
- On 3 of the 4 sides of the Arena private investment will produce several hundred housing units.
- In addition, the planned Hotel (approximately 540 rooms) would be developed to accommodate visitors to the Arena as well as, the Convention Center and the City generally.
- New and existing restaurants and social establishments would benefit considerably from the myriad of planned Arena events.

6) Where will the incremental (new revenues) come from?

- Hunden Strategic Partners assessed the origin of spending for the many project components. The source of spending includes visitors from outside the region, metro area residents and local residents and workers.
- Only spending that is new or recaptured to Richmond was counted in the direct net new impact analysis.
- While the entire project is located in the City of Richmond, in fact, the entire Greater Richmond Region and beyond will be enjoying the newly created amenities.
- These include the Arena, Blues Armory, Food Court, Restaurants, Retail, Entertainment venues all in addition to residential units.
- Those who chose to enjoy to live, work and play in this area will be the ones producing the new, incremental revenues.

7) Are taxes going to be increased as a result of the Navy Hill project?

- No, the Navy Hill project will increase revenues to the City. No new taxes are proposed as a part of the financing plan.
- The significant private investment and the uplift of the project to the City beyond the development will, in turn, diversify the City's revenue base and protect it from having to increase tax revenues in the future.

8) Is it true that the Project will siphon City tax revenue that otherwise could go to support critical City Services, School Improvements and Infrastructure?

- Only new incremental revenues over and above the City's current revenues would go to pay debt service on the non-recourse bonds. As a result, the current level of City revenues would not be diminished.
- The City projects a 2% average annual revenue growth in the increment area. This amounts to roughly \$300 million of net new revenues over 30 years to support City Service, School Improvements and Infrastructure.
- By virtue of the unprecedented amount of private investment (\$900 million programmed at the outset and upwards of \$1.3 billion over the next 5 years) the net new revenues over 30 years are estimated to be well above \$1.5 billion.
- Repayment of the non-recourse bonds would only come from net new revenues meaning to the extent that a portion of the \$1.5 billion is realized.
- The expected surplus revenues, after taking into account debt service payments is estimated to be roughly \$1 billion.

- These revenues are projected to be approximately 3x greater than the do nothing scenario.
- As a result, the project will produce far more revenue than the do nothing scenario that will be available for these needed City priorities.

9) Why use future City incremental revenues to support an Arena bond issue instead of other City needs?

- The Coliseum, as it currently exists, is an increasing liability to the City, to the tune of \$1 million per year and expected to grow.
- The increasing obsolescence of the Coliseum, coupled with the considerable level of tax exempt properties in this area, serve as a hindrance to economic development in the City's central downtown area.
- The Navy Hill project will virtually overnight transform what is now an increasing liability into an asset with only the incremental, newly realized revenues funding the debt service on the new Arena.
- As noted previously, the net new revenues are expected to be well above the debt service requirement. As a result, incremental new revenues at levels far greater than the do nothing growth scenario, in turn, would provide far more dollars for critical City services, schools and infrastructure.

10) Hunden Strategic Partner's report cites an uplift of revenue, over and above that of the Developer's projections, is this finding a typical result of your independent work?

- HSP assesses each project independently and does not use other projections as a basis for our results.
- HSP gathers market and financial data from numerous sources, checks against bottom-up and top-down analyses from similar projects and comps, and otherwise creates a demand, financial and fiscal model using our sources and methods.
- Sometimes our results show higher performance than the developer expects, while other times our results show lower performance. Often, the model is a mixed result of higher and lower assumptions/projections.

11) Hunden Strategic Partners projected approximately \$1.4 billion of new revenues to the City over the next 30 years due to this project. In other assignments of HSP, what type of variance from your projections have you seen?

- Typically, projects built outperform HSP's estimates, if they are built as planned. No project built as planned performed materially lower than projected.

- If the local and national economy have changed materially, then this can influence results. However, to reiterate, no project that HSP studied that opened (as proposed) performed lower than expectations that we are aware of.
- In our view, a failure of the City to mitigate this are of Downtown and the Coliseum may actually be worse due to the continuing deterioration of the area and a further depression of the surrounding downtown generally.

12) Can you assess the relative level of risk the City is taking compared to other localities for similar projects?

- As a result of the recently completed negotiations with the developer, the City’s “risk level” is minimal.
 - Bonds- The City is not required to make up any revenue shortfalls.
 - Hotel- The Hotel is required to maintain high quality level for years and provide a room block agreement for the Convention Center.
 - Arena – Operator is covering annual shortfalls and putting in several million dollars in upfront.
 - Armory- Renovated by private funds, not City revenues.
- In contrast, the City currently in on the hook for annual shortfalls on the Coliseum of approximately \$1 million which comes from the City’s general fund budget.
- Moreover, this project actually reduces certain key long-term risk factors for the City. An immediate increase of assessed values of roughly 25% will broaden the overall tax base of the City and help further insulate the City from a downturn in revenues.
- The 1.5% meals tax dollars (which are excluded from the incremental revenues for the bonds) would be increased by the project thus creating new revenues for school capital needs.
- The immediate program of \$900 million of private investments would add to the City’s debt capacity.
- While the City’s unemployment levels are solid, this new neighborhood will result in meaningful new jobs and career opportunities for Richmond citizens, thus reducing the direct and indirect risks of the City’s poverty level.

13) Is it typical for a city to provide a moral obligation or general obligation backing to TIF style financing bonds? What does it say about this project that no moral obligation or general obligation is required?

- TIF style financings throughout the country have been done as with moral obligations, general obligations or pure non-recourse bonds.
- The fact that this project does not require a moral obligation or general obligation means that bond buyers are confident that the approximately \$900 million to \$1.3 billion of private investment will occur which in turn will allow them to realize the net new revenues needed to repay the bonds.

14) In your experience how typical is it for a project of \$1.5 billion to have nearly \$900 million of private investment programmed in from the outset?

- Many of the large mixed-use projects HSP has reviewed over the years have *larger* public investments/components than private investments/components, which can cause some concern about the public's ability to leverage private investment.
- The situation in Richmond to the contrary is *positive* relative to many, especially sports facility-centered projects, as the desire should be for a greater share of private than public investment.
- HSP believes that this ratio is healthy and suggests a strong ability to leverage public dollars into private investment.
- This strong ratio of private to public development is why the bond financing can be done as non-recourse bonds (without the need for City's moral obligation or general obligation).