

NAVY HILL PROJECT

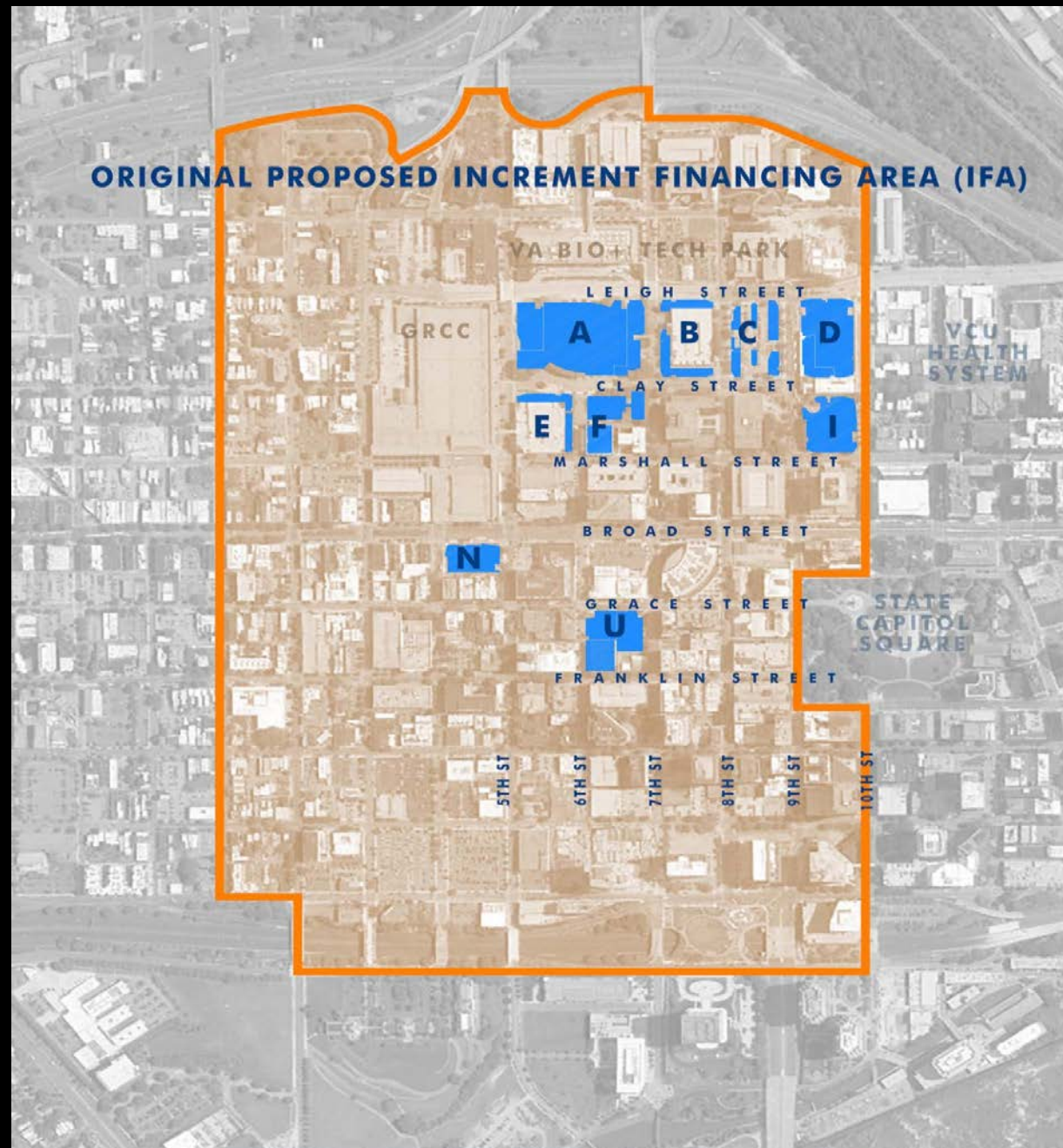


Richmond City Council
January 27, 2020

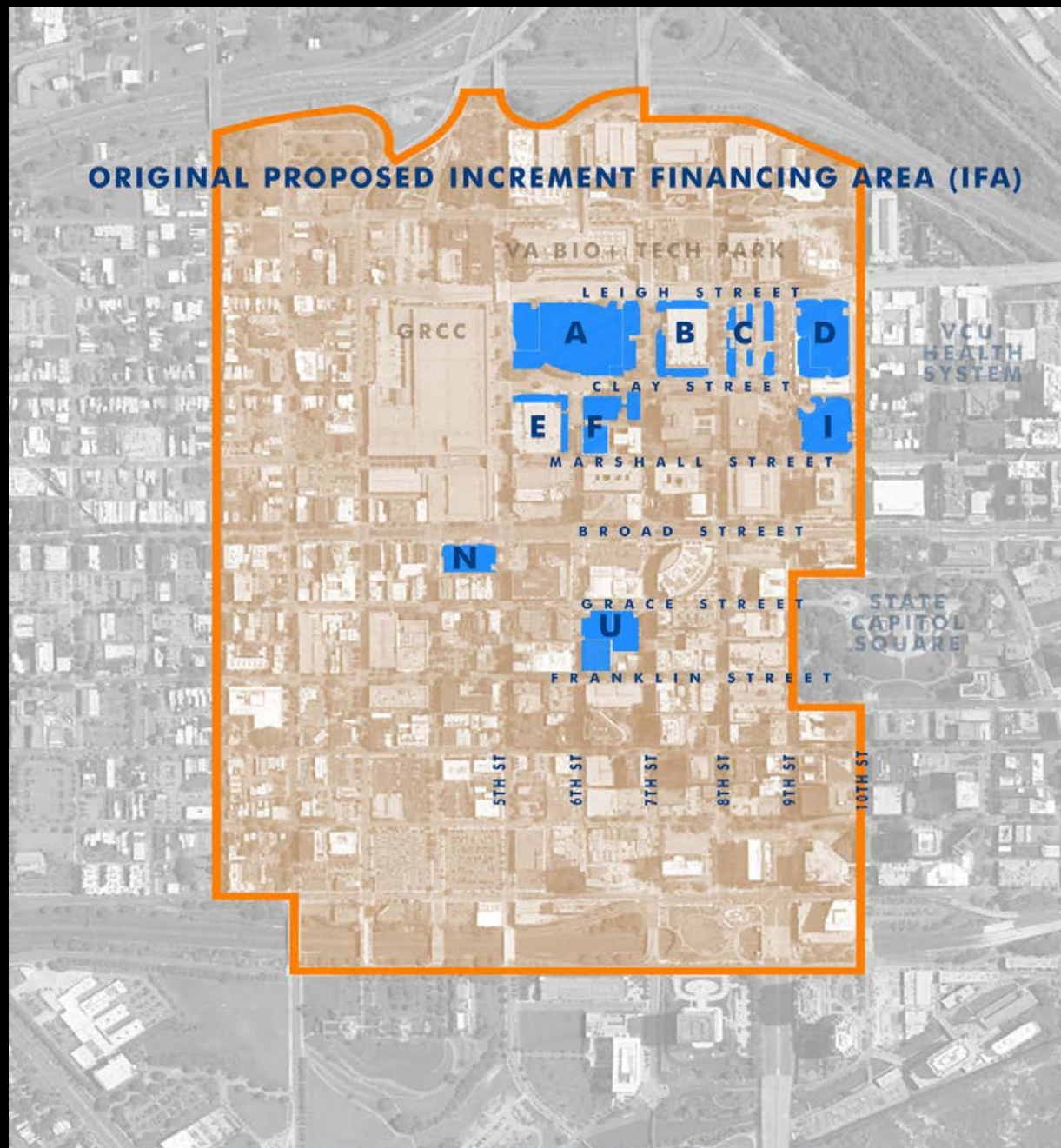


NAVY HILL

ORIGINAL PROPOSED INCREMENT FINANCING AREA (IFA)



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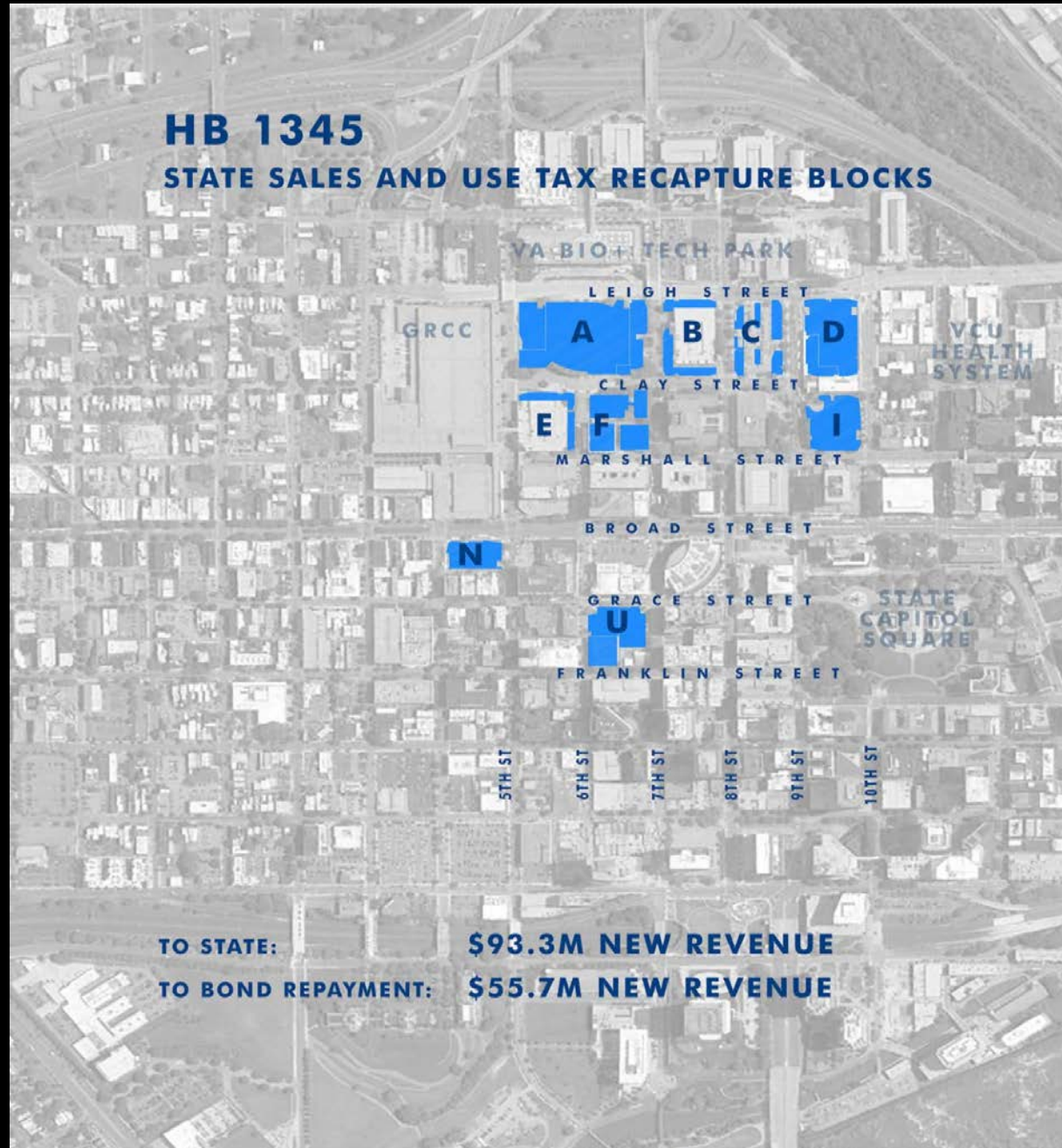


REDUCED INCREMENT FINANCING AREA (IFA)



HB 1345

STATE SALES AND USE TAX RECAPTURE BLOCKS



TO STATE: **\$93.3M NEW REVENUE**

TO BOND REPAYMENT: **\$55.7M NEW REVENUE**

- Allows the City of Richmond to use 2.025% of state sales and use tax revenue (*not dedicated to schools or transportation*) to pay the debt service for the arena
- This applies to the purchase of construction materials and sales on Blocks A, B, C, D, E, F, I, N, and U (Project Blocks)
- Virginia State Code §58.1-608.3 already allows the City of Richmond to capture a portion of state sales and use tax revenue to construct an arena, convention hotel, and adjacent facilities
- Virginia State Code §15.2-5113, §15.2-5931, §15.2-5932, and §15.2-5933 enabled the City of Virginia Beach to use state sales and use tax revenue for a redevelopment project to construct a sports and entertainment district
- 2020 General Assembly Session
 - HB120 Virginia Beach – extends and modifies the financing structure enabled by Virginia State Code §15.2-5113, §15.2-5931, §15.2-5932, and §15.2-5933
 - HB559 Norfolk – financing of an arena and facility
 - SB163 Chesapeake – adds outdoor amphitheater to the list of authorized public facilities...retain sales and use tax revenue generated...to pay off bonds

2020 SESSION	
INTRODUCED	
20104155D	HOUSE BILL NO. 1345
1	Introduced January 8, 2020
2	Referred January 8, 2020
3	A BILL to amend the Code of Virginia by adding in Title 15.2 a chapter numbered 59.3, consisting of sections numbered 15.2-5935, 15.2-5936, and 15.2-5937, relating to City of Richmond; arena and development project.
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7	Patron—Bourne
8	Referred to Committee on Counties, Cities and Towns
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11	Be it enacted by the General Assembly of Virginia:
12	1. That the Code of Virginia is amended by adding in Title 15.2 a chapter numbered 59.3, consisting of sections numbered 15.2-5935, 15.2-5936, and 15.2-5937, as follows:
13	CHAPTER 59.3
14	RICHMOND ARENA AND DEVELOPMENT PROJECT.
15	§ 15.2-5935. Definitions.
16	As used in this chapter, unless the context requires a different meaning:
17	"Arena and development area" means the geographic area in the City of Richmond located south of Leigh Street, north of Franklin Street, east of Third Street, and west of Tenth Street.
18	"Arena and development project" means a project intended to replace an existing coliseum, including an arena and associated development in the arena and development area. "Arena and development project" includes any office, restaurant, concessions, retail, recreational, civic, and lodging facilities that are operated adjacent to or in connection with such project. "Arena and development project" includes any infrastructure related to the project and directly related properties, including on-site and off-site parking lots and garages. "Arena and development project" includes multiple facilities located on multiple properties, provided that such facilities share an initial nexus of ownership, tenancy, management, or development.
19	"Authority" means an economic development authority established by the City of Richmond, or any other authority or conduit issuer approved by the City of Richmond for the issuance of bonds, provided that the approved authority or conduit issuer is an entity of Virginia state or local government.
20	"Bonds" means any obligations of the Authority for the payment of money issued or incurred to finance or refinance any cost related to an arena and development project.
21	"City" means the City of Richmond.
22	"Cost" means expenses incurred related to an arena and development project, including (i) expenses incident to determining its feasibility or practicability; (ii) the cost of plans and specifications; (iii) the cost of surveys and estimates of costs and of revenues; (iv) the cost of all land, property, rights, easements, and franchises acquired; (v) the cost of improvements, property, and equipment; (vi) the cost of engineering, legal, and other professional services; (vii) the cost of construction or reconstruction; (viii) the cost of labor, materials, machinery, and equipment; (ix) financing charges; (x) the cost of interest before and during construction; (xi) the cost of interest for up to one year after completion of construction; (xii) startup costs and the cost of operating capital; (xiii) administrative expenses; (xiv) any amounts necessary as deposits to reserve or replacement funds; and (xv) any other expenses that may be necessary or incident to the development, reconstruction, improvement, or financing of the arena and development project. "Cost" includes any obligation or expense incurred by the owner, lessee, manager, or developer, or all or any portion of the arena and development project in connection with any of the foregoing expenses.
23	"Sales and use tax revenues" means tax collections under the Virginia Retail Sales and Use Tax Act (§ 58.1-600 et seq.), as limited herein, generated by transactions taking place upon the premises of an arena and development project, including transactions generating revenues in connection with the development and construction of the project that would not be generated but for the existence of such project. For purposes of this chapter, "sales and use tax revenues" does not include the revenue generated by (i) the one-half percent sales and use tax increase enacted by Chapters 11, 12, and 13 of the Acts of Assembly of 1986, Special Session 1, which shall be paid into the Transportation Trust Fund as defined in § 33.2-1524; (ii) the one percent of the state sales and use tax revenue distributed among the counties and cities of the Commonwealth pursuant to subsection D of § 58.1-638 on the basis of school-age population; and (iii) the additional state sales and use tax in certain counties and cities assessed pursuant to Chapter 766 of the Acts of Assembly of 2013 and any amendments thereto.
24	§ 15.2-5936. Entitlement to sales and use tax revenues.
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59	A. 1. Upon execution of a binding development agreement for an arena and development project by the City or the Authority, the Authority shall be entitled, subject to appropriation, to sales and use tax revenues defined in this chapter, which the Authority shall pledge as security for, or the source of, payment of, the debt service on any bonds, the funding or replenishment of reserve or replacement funds for the bonds, and the payment of any related administrative or financing costs of the bonds, and the State Controller shall remit such sales and use tax revenues to the Authority on a quarterly basis, subject to such reasonable processing delays as may be required by the Department of Taxation. The State Controller shall make such remittances to the Authority, as provided herein, notwithstanding any provisions to the contrary in the Virginia Retail Sales and Use Tax Act (§ 58.1-600 et seq.).
60	2. Any entitlement of the City of Richmond to receive sales and use tax revenues pursuant to the provisions of this chapter shall expire on the earlier of (i) the date of the final payment of any bonds issued by the Authority to finance or refinance any cost of the arena and development project or (ii) 35 years from the initial date that any bonds were issued to pay any cost of the arena and development project.
61	B. If an arena and development project qualifies for entitlement to sales and use tax revenues pursuant to the provisions of § 58.1-3851.1 or 58.1-3851.2, the Authority shall remain eligible to receive sales and use tax revenues pursuant to the provisions of this chapter; however, the amount received pursuant to this chapter shall be reduced by the amount received by the City or the Authority pursuant to the provisions of § 58.1-3851.1 or 58.1-3851.2.
62	§ 15.2-5937. Tax revenues of the Commonwealth or any other political subdivision not pledged.
63	Nothing in this chapter shall be construed as authorizing the pledging of the faith and credit of the Commonwealth, or the faith and credit of any other political subdivision of the Commonwealth, for the payment of any bonds, and the bonds shall so state on their face. Bondholders shall have no recourse whatsoever against the Commonwealth or the City for the payment of principal, interest, or redemption premium, if any, on such bonds.
64	2. That the Tax Commissioner shall report to the Chairmen of the Senate Committee on Finance, the House Committee on Finance, and the House Committee on Appropriations, annually prior to July 1, the amount of the entitlement pursuant to § 15.2-5936 of the Code of Virginia, as created by this act, provided that either the City of Richmond or the Authority, as defined in § 15.2-5935 of the Code of Virginia, as created by this act, has executed a binding development agreement for an arena and development project pursuant to the provisions of § 15.2-5936 of the Code of Virginia, as created by this act.
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CITY OF RICHMOND

INTRACITY CORRESPONDENCE

DATE: January 16, 2020
TO: The Honorable Members of City Council
FROM: John B. Wack, Director of Finance
SUBJECT: Potential Reduction in Increment Financing Area, as Related to Recapture of State Sales and Use Tax per House Bill 1345

In response to feedback and recommendations from City Council and the Navy Hill Advisory Commission, the City Administration worked with the Navy Hill development team and the City's financial advisors, Davenport & Company, in order to reduce the size of the Increment Financing Area (IFA) by applying additional State sales and use tax revenues that would be available pursuant to House Bill 1345. If approved by the General Assembly, we project that the legislation would add over \$55 million in additional revenues (over the life of the bonds) available to repay the non-recourse revenue bonds for a new arena. These revenues would come primarily from the 2.025% portion of State sales and use taxes not specifically allotted for statewide education and transportation costs, and would be generated directly and solely by the development (including the construction phase) which could begin in late 2020.

The Navy Hill team completed new financial projections with MuniCap quantifying the impact of the additional State sales and use tax revenue. The IFA can be limited to only the project development blocks (including the Doorways properties adjacent to the Blues Armory) and the incremental real estate tax revenue from the two Dominion tower properties. The following changes could be realized if House Bill 1345 is approved:

- The number of parcels in the IFA decreases from 892 parcels to 23 parcels
- The number of City blocks in the IFA is reduced from approximately 80 blocks to 11 blocks
- The acreage in the IFA is reduced from 235.9 acres to 26.6 acres
- The Base Value of the IFA decreases from \$1.75 billion to \$223 million

By reducing the IFA, \$172 million of incremental real estate tax revenue, previously available to repay the bond debt, now directly flows to the City's general fund. This eliminates a perceived risk of the project as identified by the Navy Hill Advisory Commission.

The attached analysis from Davenport & Company indicates the following regarding the proposed new IFA:

- The net general fund revenues are higher with the project than without it, during the first five years, the second five years, and over the life of the non-recourse revenue bonds; and
- The "Do Nothing" scenario leads to about \$138.5 million in net revenues to the City's general fund, compared to \$573.9 million in net revenues with the project over the life of the bonds.

Please note that the figures in the Davenport memo do not include the Hunden uplift, which was estimated to add approximately \$329 million in additional general fund surplus revenue over the life of the bonds (per their November 2, 2019 presentation to the Navy Hill Commission). Over the life of the bonds, the City still projects to receive \$1 billion in net new revenue.

The passage of House Bill 1345 is essential to reducing the size of the IFA and the City realizing all of the benefits of the project.

The following table summarizes the changes that can be made to the IFA with the passage of House Bill 1345 compared to the August 2019 proposal.

**Updates to Navy Hill Increment Financing Area
Reduced by Proposed State Sales & Use Tax Revenues per HB 1345**

	Original IFA as Proposed in August 2019	New IFA as Proposed in January 2020	Change (Reduction)	
Number of Parcels	892	23	(869)	✓
Number of City Blocks (Approximate)	80	11	(69)	✓
Combined Acreage	235.9	26.6	(209.3)	✓
Taxable Value of Real Estate as of July 2019	\$1,748,188,000	\$222,985,000	\$ (1,525,203,000)	✓
Portion of Citywide Taxable Real Estate Values	6.5%	0.8%	(5.7%)	✓

Projected Real Estate Tax Revenue Growth No Longer Dedicated to Arena Bonds:

During Years 1 through 5:	\$5,076,216
During Years 6 through 10:	\$15,162,256
Total During the Life of the Arena Bonds	\$172,170,668

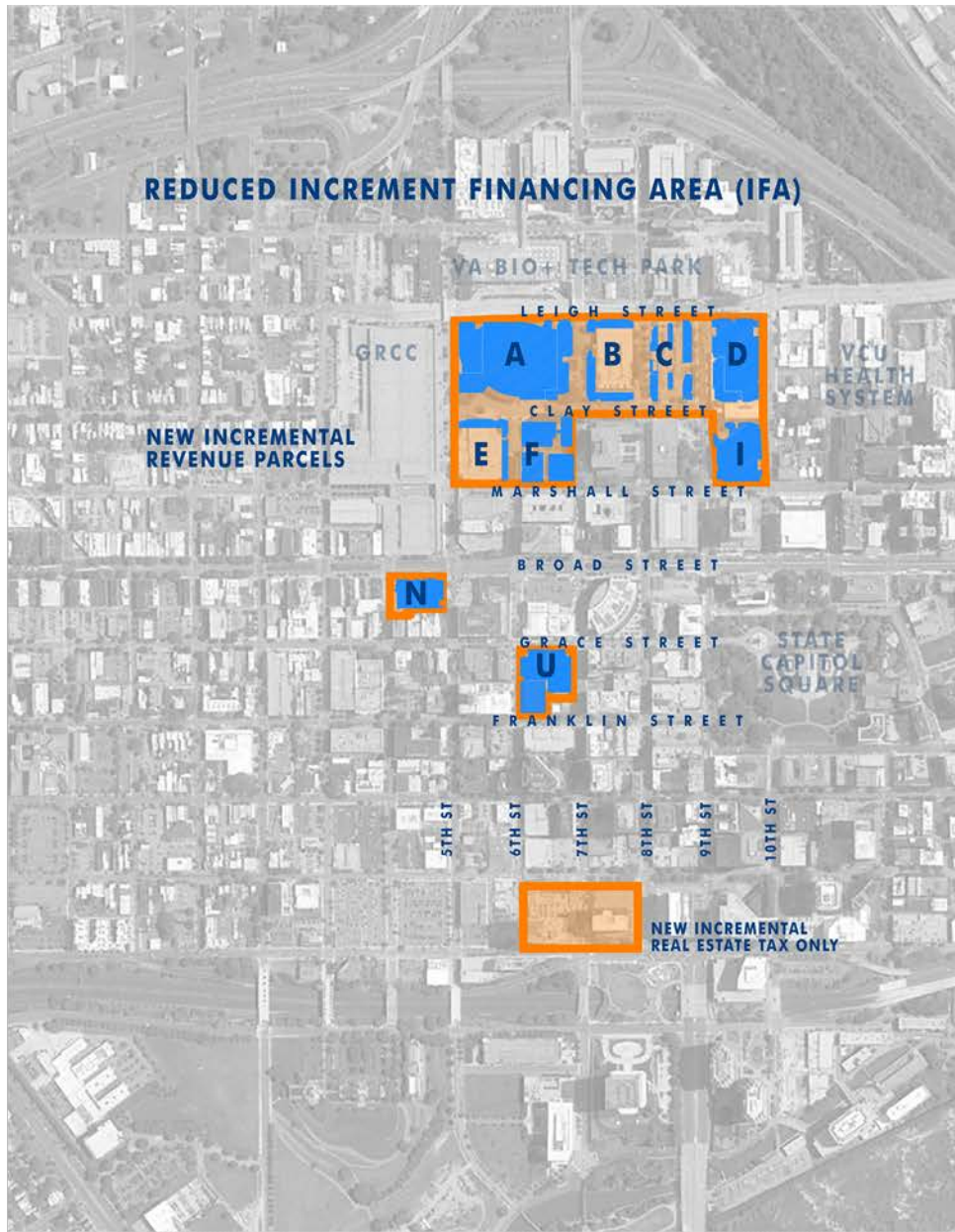
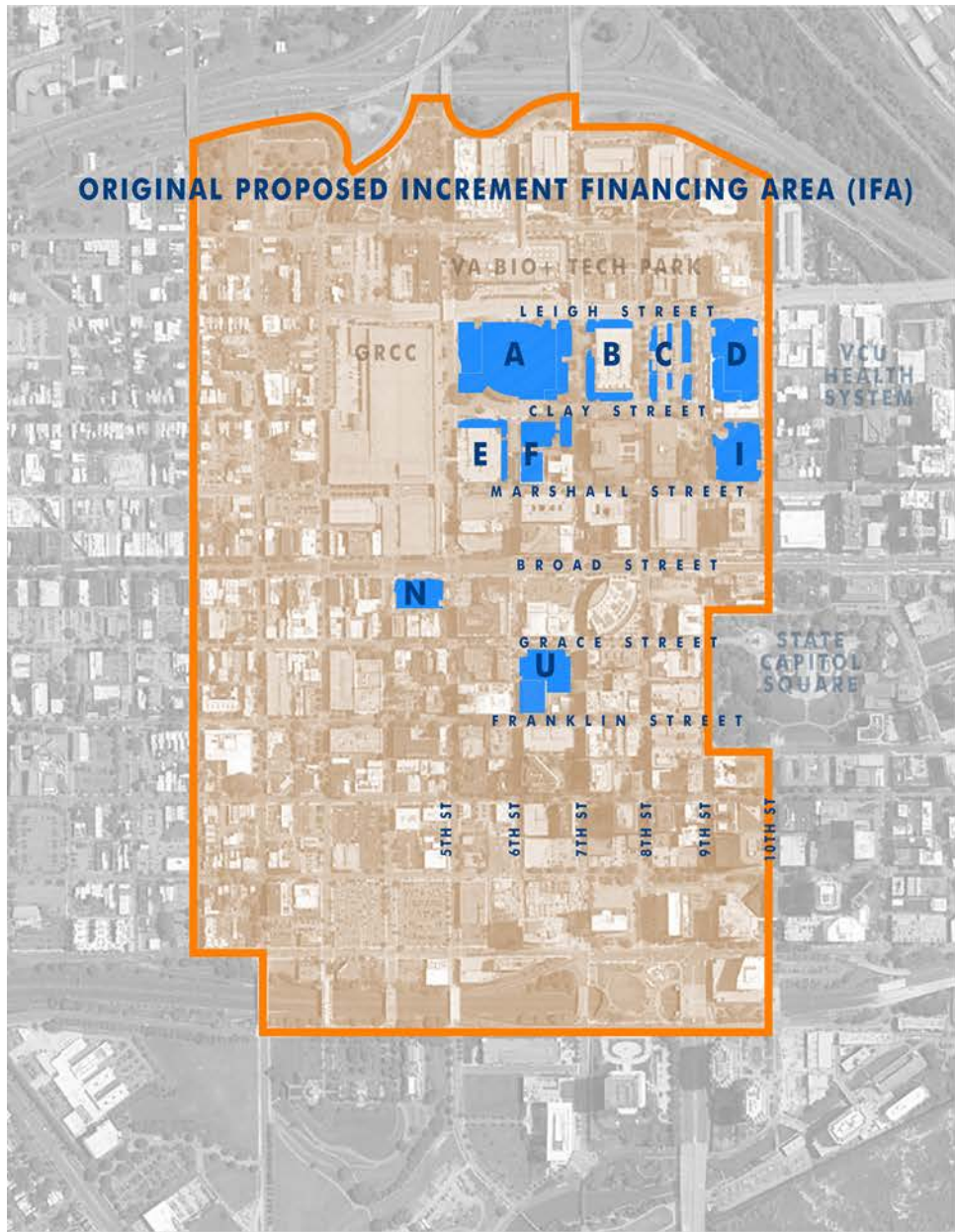
PUBLIC BENEFITS PAID FOR WITH PRIVATE DOLLARS

Title	Amount	Description
Affordable Housing	\$23,400,000 +	Developer self-subsidy for affordable housing
Affordable Housing	\$10,000,000 +	Philanthropic Funding
Convention Hotel	\$65,000,000 +	No public incentives to build and operate the 524 room full service convention hotel
Historic Restoration & Preservation of Public Buildings	\$20,000,000 +	Restoration and preservation of the Historic Blues Armory and Richmond Garage
MBE Participation	\$300,000,000	Commitment for minority business participation in the project
Public Infrastructure	\$28,000,000 +	Construction of public infrastructure required for the project
Total	<u>\$446,400,000 +</u>	

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**Restructured IFA
MuniCap Projection 28-C**

January 27, 2020



Projection 27-A (last iteration) vs. 28-C

Projection 27-A

- Used new incremental real estate tax revenue from the 80 block area in Downtown Richmond
 - Approximately \$172 million over the life of the bonds
- Dominion Tower 1 valued at \$326 million
- Partial state sales tax revenue (2.025%) utilized due to existing Virginia legislation
 - Virginia Code 58.1-608.3
 - Only for Arena, Armory, Blocks F, A2, and A3

Projection 28-C

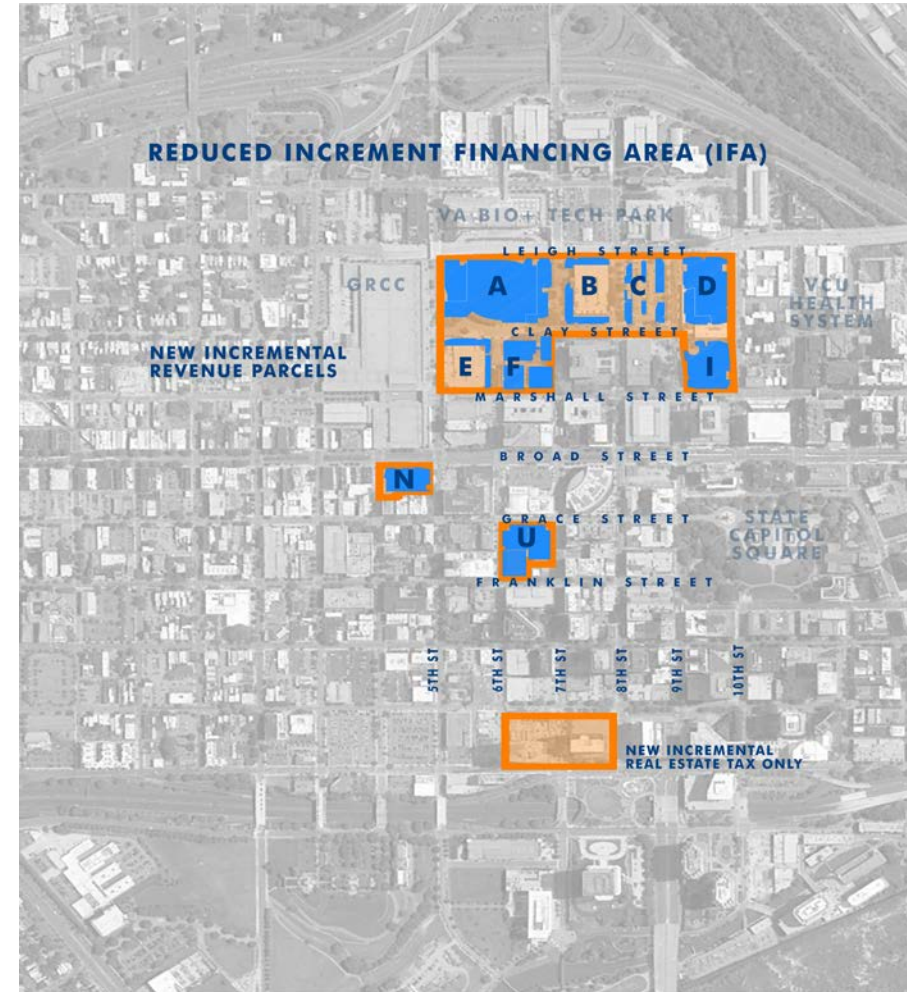
- Removed new incremental real estate tax revenue from the 80 block area in Downtown Richmond (\$172 million)
- Adjusted Dominion Tower 1 value to \$307 million
- Assumes a portion of state sales and use tax revenues (2.025%) from overall Navy Hill development blocks would be available for debt service
 - This is the effect of HB 1345
 - Results in approximately \$55.7 million over the life of the bonds

Bond Sizing for MuniCap Projection 28-C

Total Issuance:	\$280,525,000.00
Proceeds for Construction:	\$225,000,000.00
Term:	Approximately 28 years
Minimum Debt Service Coverage:	1.5x
Assumed Rates:	5.50% for Tax-Exempt, 7.25% for Taxable
Maturity:	19.6 years to expected payoff
Turbo Redemptions:	Yes - excess revenues shared 50/50 with City
Excess Cashflow to City (Gross):	Approximately \$596 Million Years 1-10: Approx. \$39.5 Million

Pledged Revenues for the Bonds

- Taxes from
 - Incremental Real Estate
 - Meals (except 1.5% for schools)
 - Sales (2.025% state, 1.00% local)
 - Lodging
 - BPOL
- Other Revenues
 - Portions of Arena and Districtwide Sponsorships
 - Incremental Parking Revenues



Changes for next set of Projections

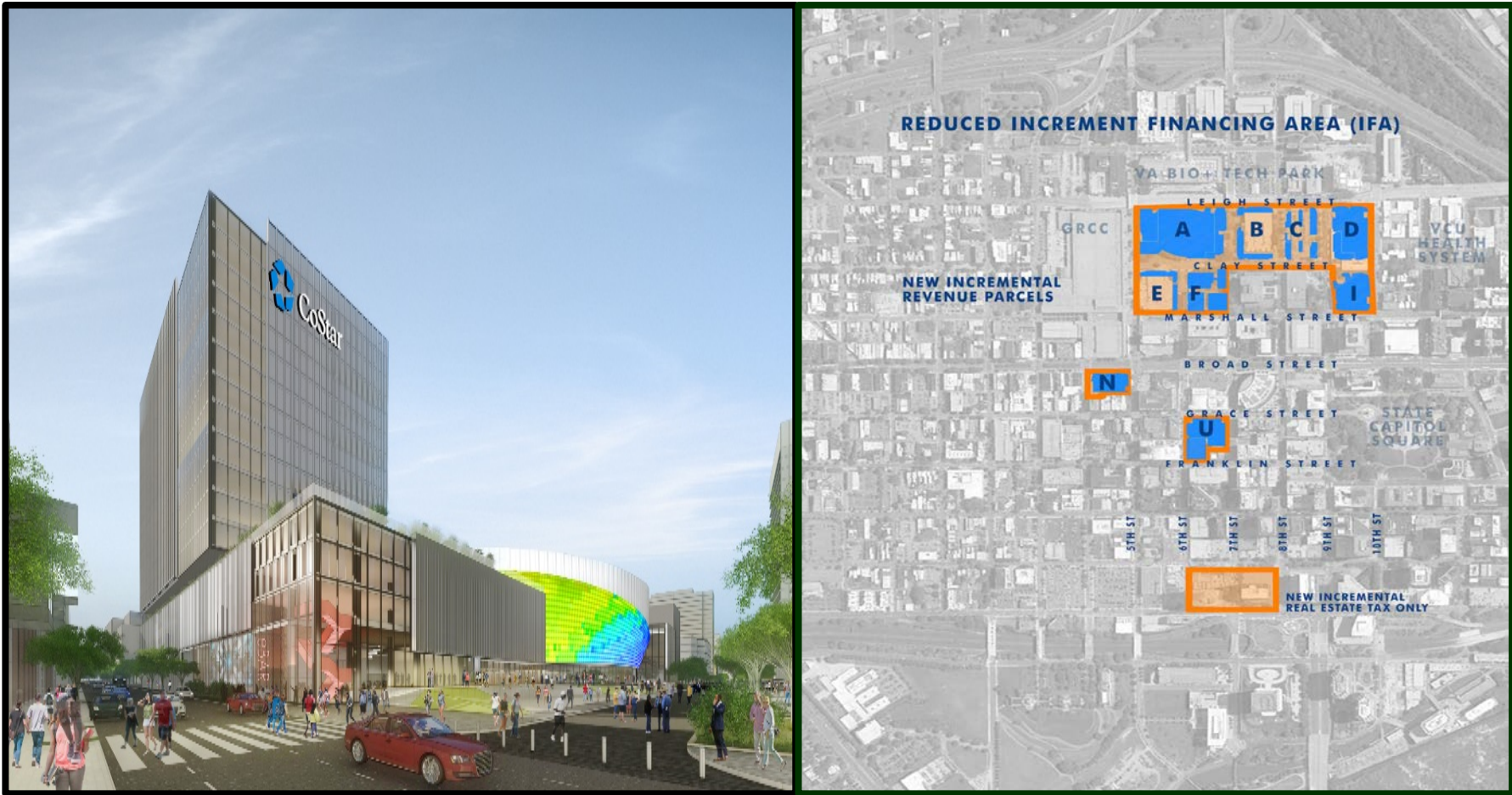
- Modify Projections based on updated Master Plan, uses, and schedule

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How Each MuniCap Projection is Prepared

- MuniCap receives instructions from the development team to adjust their revenue projections. These iterations occur for various reasons, such as adjustments to:
 - The density within the core Navy Hill project, which is market-driven;
 - The project schedule which affects when revenues become available;
 - Key bond market assumptions, such as interest rates.
- MuniCap prepares a new set of projections and submits to the development team.
- The development team reviews internally, seeks further iterations if necessary.
- The projections are sent to the bond underwriters at Citigroup and JP Morgan Chase to create a new debt model for sizing the potential bond issuance.
- This bond model is sent back to MuniCap for them to incorporate in the correlating set of revenue projections.
- Once all these steps are completed, both MuniCap and our bond underwriters' models are in alignment.



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