"Looking Toward Tomorrow's City"

Virginia Beach Vision, Inc.

June 11, 2009

The Honorable William D. Sessoms, Jr.
The Honorable City Council
2401 Courthouse Drive
Building 1, Suite 234
Virginia Beach, VA 23456-9000

Dear Mayor Sessoms and members of City Council:

Councilman Diezel asked Virginia Beach Vision to review the document, "The Success of Town Center, An Alternate View" as prepared by the Virginia Beach Taxpayers Alliance (VBTA) and to provide comment to City Council. At the June 9, 2009 meeting of the Virginia Beach Vision Board of Directors, the attached document, "Town Center TIF Analysis" was unanimously adopted and is provided for your consideration.

The VBTA document focuses on challenging the suitability of public investment and the return the public receives on that investment in the Town Center district. As documented by all three bonds rating agencies in their credit reports dated May 28, 2009, the exemplary ratings received were attributed, in part, to the city's successful public investment in economic diversification. Specifically, Standard and Poor's states, "Nonetheless, the city continues to strive for further economic diversification with projects such as the Town Center – a very large, mixed-use development project in the core of the business district. This diversification has begun to attract new business and spin-off projects, providing employment opportunities beyond the traditional tourism and military sectors. The growing number of office, mixed-use, and commercial projects reflects this effort. "

This city council, and past councils, have made tough decisions to invest in initiatives instead of cutting them, thus creating a political jurisdiction that, while not immune to economic downturns, is at least positioned to weather these storms and to move forward even in the turbulence of tough economic times. As noted by Standard & Poor's, "While city unemployment has spiked recently to 5.9% as of March 2009, it remains below the commonwealth's 6.8% rate and the nation's 8.9% rate."

While our "Town Center TIF Analysis" specifically addresses some of the key assertions made by the VBTA, Virginia Beach Vision believes the endorsement of such public investment by the city as represented in the reports of the credit agencies is evidence enough that the city must continue its investment in economic growth and diversification whenever financial analysis projects significant benefit to the City and its taxpayers.

Respectfully,

Stephen R. Davis
President
Virginia Beach Vision, Inc.

Cc: James K. Spore, City Manager
R. Steven Herbert, Deputy City Manager
David L. Hansen, Deputy City Manager
Patricia A. Phillips, Director, Finance

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TOWN CENTER TIF Analysis

Response to Virginia Beach Taxpayers Alliance

"The Success of Town Center; an Alternate View"

June 9, 2009

Preface:

The Virginia Beach Taxpayers Alliance (VBTA) document focuses on discrediting the use of a TIF as an appropriate financing tool for the Town Center area and disputes its measures of success. It does not challenge the fact that the public infrastructure supported by the Town Center Tax Increment Financing District (TIF) has achieved its goal by stimulating significant new development and private investment in the targeted area and by increasing tax revenues generated within the targeted area .

The VBTA document focuses solely on challenging the use of a TIF in the Town Center area. The document does not challenge the use of TIFs in other applications in the City, notably the Lynnhaven area TIF and the Sandbridge TIF. The VBTA's overarching goal appears to be to slow or stop future public-private partnerships necessary to expedite economic growth and urban model development as demonstrated successfully in the Town Center district.

As explained by the Government Finance Officers Association (GFOA), an association of respected public officials from throughout the country, tax increment financing has become an important tool for local governments to attract economic development projects, create jobs, foster infrastructure investment and redevelop blighted areas.

Although TIF financing is not appropriate in all redevelopment ventures, it can be an appropriate and successful tool in leveraging private investment and in directing growth when economic analysis indicates a positive return on the public's investment. A key measure of whether public financing is appropriate, as suggested by GFOA, is "whether redevelopment could take place within an acceptable timeframe, without economic assistance from the local government (e.g. "but for" the TIF assistance, the development would not be possible)."

Opening statement:

The overarching issue is really whether public investment in infrastructure and public/private partnerships to foster economic growth, jobs and an expanded commercial tax base is appropriate. The evidence clearly indicates that it is not only appropriate, it is essential.

The City of Virginia Beach has again achieved an AAA bond rating by Standard & Poor's and an AA+ rating by Fitch Ratings. In its May 28, 2009 credit summary, Fitch Ratings stated, "The Stable Rating Outlook reflects Fitch Ratings' belief that the city will continue diversifying its economy beyond the traditional military and tourism industries. Virginia Beach, in the Hampton Roads region of Virginia, is the commonwealth's largest city. Efforts to diversify the economic base are ongoing. The Town Center of Virginia Beach, a city initiative to create a core business area and mixed-use development through the establishment of a special tax district, is slated to begin the fourth phase of construction this year. A proposed light rail system would further expand the economic base and support development throughout the city."

Virginia Beach City Council has done a commendable job in choosing its investments wisely as witnessed by its purchase of the Lake Ridge properties in the Princess Anne Commons area that have now become home to the SportsPlex, Amphitheater, and adjacent hospital and educational complexes. No one now questions the wisdom of the investment in the Lake Gaston pipeline though it generated significant criticism at the time. Investment in the 31st Street structural parking has generated numerous new businesses, a first class hotel, a public park and gathering place. Upgrades in the Sandbridge area and the Lynnhaven Mall area, both of which are designated TIF districts, have been widely regarded as highly successful. Most recently, as stated in the Standard & Poor's report, "The new convention center, which is three times the size of the previous convention center and the first Virginia "green" certified center, benefits the city's economy; and it has exceeded projections in all areas."

With the Central Business District/Town Center, multi-storied office and residential development would not have been possible without the concurrent development of public parking garages and the public plaza. To capture the efficiencies of more densely developed areas, public financing support is essential. Structured parking spaces cost an average of $15,000 to $20,000 per space where surface parking costs an average of $2,000 per space. Without public infrastructure development, suburban sprawl is far more cost effective for the private investor. Conversely, the cost to the local government to provide roads, water, sewer, public safety and other services to developments spread miles apart is exceedingly more expensive, and the cost from an effective land use standpoint to a city with limited available land for development/redevelopment cannot be calculated.

Public investment that guides the shape, pace and competitiveness of future development and redevelopment is an important and essential role of local government. It can be the difference between planning for the future of our City and blindly being overcome by it.

<u>Addressing specific, overarching VBTA challenges:</u>

- **Required finding of blight** -
  The VBTA begins its challenge of the use of Tax Increment Financing (TIF) by concluding that the Town Center district did not meet the State's definition of a blighted area and therefore was not eligible for use of TIF.

  This argument is without foundation. The state code does not require a finding of blight in order for TIF financing to be used. As found in §58.1-3245.2, "The governing body of any county, city or town may adopt tax increment financing by passing an ordinance designating a development project area and providing that real estate taxes in the development project area shall be assessed, collected and allocated in the following manner for so long as any obligations or development project cost commitments secured by the Tax Increment Financing Fund, hereinafter authorized, are outstanding and unpaid." There is no requirement that the area comprising the development project area be blighted nor is there any such requirement found in the remaining language addressing TIF. Costs to correct blight are just one of the needs for which proceeds of TIF financing may be expended, but a blighted condition is not required.

- **Measuring success** -
  VBTA questions the finding that the Town Center TIF has been an economic success by challenging the use, selection and measure of the "base year assessment" and of the "tax increment" measure

of growth. Virginia State Code specifically defines these terms and how the tax increment assessments are to be measured as explained below. The City has appropriately applied these measures in assessing the Town Center TIF district incremental real estate assessment growth.

"Tax increment" is defined as being "the amount by which the current assessed value of real estate exceeds the base assessed value." "Base assessed value" is defined in the Code as "the assessed value of real estate within a development project area as shown upon the land book records of the local assessing officer on January 1 of the year preceding the effective date of the ordinance creating the development project area." Despite VBTA's assertion otherwise, the definition does not allow for adjustments to the base year assessment due to changes in real estate tax rates or for "real estate tax revenues which would have been collected anyway."

Though there would likely have been some increases in assessed value of the Town Center properties without the public and private improvements made possible through the establishment of the TIF district, similar properties in the City demonstrate the tax revenue growth would have been far less dramatic. While the measure of the "tax increment" growth adopted by the State may not be a perfect measure in this regard, it does provide an industry standard that is quantifiable.

- **TIF effectively reduces the General Fund** -
  As set out in the Virginia Code, **only** "real estate taxes attributable to the **increased value** (emphasis added) between the current assessed value of any parcel of real estate and the base assessed value of such real estate shall be … paid into a …"Tax Increment Financial Fund" to pay the principal and interest on obligations issued or development project cost commitments…" Any funds not required to service the TIF debt move into the General Fund. Consequently, the dollars flowing from a TIF district into the General Fund are, at worst, unaffected and may be enhanced.

  In addition, other tax revenues generated by new business and development in the district are treated as all other tax revenues in the City and support general public services such as education, roads, public safety and the like. While a portion of incremental tax revenues do flow into a Tax Increment Financial Fund, these revenues cannot be used to pay for private improvements that benefit the developer, but can only be used to provide public improvements that will ultimately be owned by the City.

  The VBTA specifically suggests that the Town Center development has actually increased costs to the City related to public services. This inference is false. Town Center properties pay the same taxes and fees levied throughout the City to fund general public services, carrying their proportional share of the cost burden. In addition, the Town Center district also incorporates financing through a Special Service District overlay, taxing property owners an additional real estate tax, currently $0.45/$100, to cover the costs associated with maintenance of the public garages and any enhanced services in the core area.

- **The VBTA "bottom line"** –
  The VBTA "bottom line" is "while the cost of Town Center is dispersed among many taxpayers, the substantial benefits accrue to the select few." VBTA asserts that new jobs brought to Town Center have done nothing to help shift the city's tax burden from the homeowners.

  The facts, however, indicate otherwise. Citywide, the residential portion of the tax base is approximately 85% whereas the core area of the Town Center TIF which has undergone intensive development is comparatively 36.9% residential and 63.1% commercial property. While citywide cumulative growth in real estate assessments grew 197% since 1997, the growth in the Town Center TIF district almost doubled that rate, expanding 374%. As Town Center Phase IV is developed, growth of the commercial tax base will be further enhanced.

The residential percentage of the City's property base has increased in recent years, not from a lack of growth in commercial development within the City, but from an unprecedented four-year period of double–digit increases in residential property values. As commercial property assessments adjust, as history shows they will, the added commercial development at Town Center and in other areas of the City will continue to improve the residential to commercial tax ratio.

The VBTA document further discounts significant new tax revenues generated outside of the real estate tax assessments. The $392 million in private investment, that accompanied the $83.6 million in TIF financing, generated jobs and taxable expenditures that would not otherwise have existed. Other tax revenue sources including business license taxes, hotel, meal, general sales and personal property tax revenues exceed the incremental real estate tax revenues in the Town Center district. These new dollars (now $5.2 million annually) support the numerous public services enjoyed by all the citizens.

Conclusion:

The City of Virginia Beach cannot stand still in hopes that some unexpected, unpredicted financial force will continue its "good standing" in the world of financial stability. Therefore, the positive use of TIF financing and other measures will be advantageous tools for the redevelopment of our City. The specific use of this method should be evaluated in the light of financial modeling for each of the Strategic Growth Areas.