Arlington County Civic Federation
Revenues & Expenditures Committee
Report on 2012 County Bond Referenda
September 27, 2012

I. Background for This Report

The County's bi-annual ten-year Capital Improvement Plan (CIP) serves two purposes. One, it is a planning document that incorporates a wide variety of anticipated capital projects and their various funding sources for the ten-year period covered by the CIP. Two, it also serves as a funding blue print document, with the projects proposed for bonding in the initial two years of each CIP coming directly from the adopted CIP. Once the CIP is adopted, the County Board's only remaining tasks are to group the various projects proposed for bond funding into the various individual ballot questions that appear on the November ballot and adopt the formal bond language.

At its June meeting, the Arlington County Civic Federation (the Federation) received an informational program on the fiscal years 2013-2022 (FY13-FY22) proposed CIP from County staff members. At its July 21 meeting, the County Board approved the FY13-FY22 CIP, along with the formal bond resolutions and questions for the 2012 bond referenda.

This report from the Federation's Revenues & Expenditures Committee (R&E) has been written at the request of the Federation's Executive Committee, and includes R&E's recommendations on each of the four bond referenda on the November 6, 2012 ballot. At the October 2, 2012 Federation general meeting, delegates will vote on separate resolutions to support or oppose each of the four referenda. The contents of this report are not being submitted to delegates for adoption.

By virtue of the fact that the CIP review process encompasses multiple documents totaling nearly 500 pages, it would be impractical to discuss every aspect of each of the referenda. Instead, R&E has attempted to distill as much relevant information into this report as possible. To review the entire source documents, R&E refers you to the following:

SOURCE DOCUMENT	WEB LINK
FY13-FY22 CIP as originally proposed by County Manager	http://tinyurl.com/8bhekal
Link to CIP page with numerous additional reports	http://tinyurl.com/8cmsydh
County Manager's Report for final CIP adoption at 7/21/12 Board Meeting	http://tinyurl.com/9rqh39a
County Manager's Report on bond referenda questions for 7/21/12 Board Meeting	http://tinyurl.com/8pltuz2
FY13-FY22 Schools CIP proposed by the School Superintendant	http://tinyurl.com/9bl73c6

The actual referenda language and explanations as approved by the County Board are included as an attachment to this report. In the discussion of the three County bond referenda that follows, the page number references below are to the County Manager's original CIP proposal.

While this report describes the individual projects within each referendum as extracted from the CIP, the reader should note that the actual bond language appearing on the ballot is not project-specific, does not refer to the CIP, and is very general in nature.

An excerpt from story *The Sun Gazette's* "Political Notes" column dated September 27, 2012 contained the following statement, which illustrates this point:

> *County Board Chairman Mary Hynes, acknowledging that bond funds could be moved around if necessary, said that was not the plan."People should go to the polls pretty sure" they will be getting what they are supporting, she said. (See http://tinyurl.com/d4jxfg2.)*

II. Metro & Transportation Bond $31,946,000

As described in the CIP, this bond question has five components:

$14,600,000	Metro capital plan (pp. E1-E2)
$13,195,000	Paving (pp. E91-E92)
$2,500,000	Boundary Channel Drive Interchange planning (pp. E54-E55)
$1,351,000	WALKArlington (pp. E82-E83);BIKEArlington (pp. E52-E53); Neighborhood Traffic Calming (pp. E89-E90)
$300,000	Bridge Renovation (pp. E87-E88)

The $14.6M for Metro is the first part of Arlington's share of WMATA's new six-year capital program. Arlington's total share for the entire six-year period is estimated at $117.4M. Of that total, $76.5M is projected to be raised from bond issues ($14.6M referenda this year; with additional referenda of $39M in 2014 and $22.9M in 2016), with $24M coming from state & federal funding and another $16.9M from prior bond authorizations. Major items in WMATA's six-year program are modifications recommended by the National Transportation Safety Board made after the deadly Red Line crash in 2009, replacement of the 1000 series rail cars, rehabilitation of the oldest segments of the rail system and rehabilitation of the system's elevators and escalators.

The $13.195M described in the CIP for paving continues the County's practice from the previous CIP (FY11-FY16) of adding bond funding to Pay-As-You-GO (PAYG) operating budget funding for county-maintained streets. The CIP notes that the County's Pavement Condition Index (PCI) has dropped from the low 80's a decade ago to 68.9 currently, with 35% of our streets rated below 60 PCI (a PCI of 100 is a brand-new street). Streets below 60 PCI usually need to be paved, as opposed to less intrusive maintenance like slurry seal or micro-resurfacing. Continued bond funding, along with projected increases in PAYG paving funding in the CIP out-years, is projected to increase the PCI to 85 over the next twelve years.

The Boundary Channel Drive interchange with I-395 amount of $2.5M is for design and engineering. Construction is projected to be funded by a 2014 referenda.

R&E Recommendation on the Metro & Transportation Bond. R&E recommends that Federation delegates support the Metro & Transportation bond. Arlington's obligations for Metro capital costs are contractual, and neighboring Virginia jurisdictions fund their share by issuing bonds as well. R&E also considers bond funds for paving to be the only practical method to catch up on the neglect the paving program has seen over the past decade.

III. Local Parks & Recreation Bond $50,553,000

As described in the CIP, this bond question has four components:

$42,500,000	Long Bridge Park Aquatics Facility (pp. C25-C27)
$6,868,000	Parks Maintenance Capital (pp. C11-C14)
$1,000,000	Land Acquisition (pp. C19-C20)
$185,000	Tyrol Hills final phase planning (pp. C28-C29)

The Parks Maintenance Capital portion of this bond continues the transitioning of funding a portion of maintenance capital with bonds that began in the FY11-FY16 CIP. The focus here for the first six years of the FY13-FY22 CIP is to begin "catching-up" on deferred parks capital maintenance projects, as identified by an asset management assessment compiled by an outside consultant. The CIP lists the modernization of Quincy, Fort Barnard, Highview, Virginia Highlands Parks and the outdoor facilities at Thomas Jefferson as the targeted rehabilitation projects for this two-year bond cycle.

The largest single project in this year's bond referenda is the $42.5M for Long Bridge Park Phase II. At its June 2012 general meeting, the Federation passed a resolution urging the County Board to put this project on the November ballot as a stand-alone item, due to its sheer size and long-term financial impact. The County Board chose to package Phase II of Long Bridge with the other three targeted spending categories listed in the table above.

Phase II of Long Bridge Park includes the initial phase of the aquatics/fitness center building (4 pools; party rooms; indoor fitness area), as well as surface parking, a continuation of the esplanade, public art and a variety of outdoor public spaces. Construction drawings for Phase II are not projected to be completed until sometime in early 2013.

The original bond referendum of $50M for Long Bridge appeared on the 2004 ballot, and was supposed to fund the initial phase of the aquatics/fitness center and two soccer fields.

Phase I of the actual project (3 soccer fields; esplanade; environmental remediation; surface parking; rain gardens; walkways throughout the park; and restrooms) has cost $36.9M to-date.

Phase II of the project is projected to cost an additional $79.2M, bringing the total projected cost of Phases I and II to $116.1M. The Phase II cost of $79.2M is nearly double the amount of this year's school bond referendum.

Combined Phase I and Phase II funding sources are now being identified as the 2004 ($50.M); outside funding for Phase I ($3.6M); the 2012 bonds ($42.5M); and a projected $20M from the sale of transfer of density rights (TDRs) to private developer(s) for a site or sites elsewhere in the County.

As the TDR sales are speculative, the CIP anticipates the County borrowing this $20M using short-term non-bond sources until the TDRs have been sold. There is 831,000 square feet of excess density on the Long Bridge site that could be available for sale. As a comparison, the 24-story office building at 1900 Crystal Drive recently approved by the County Board contains 720,000 square feet, and will be the second largest building in Arlington (only the Pentagon is larger).

The CIP projects the annual debt service for Phase II to be over $6M at its high point in FY17. Beyond the debt service cost, the CIP also shows projected operating deficits for the facility of $1.25M annually. In a County Board work session on Phase II, staff presented the Board with multiple projections showing annual operating deficits as high as $2.481M. Combining debt service and operating subsidies, Phase II of Long Bridge will have an annual net cost of between $7.3M and $8.5M in its initial years.

As a benchmark, this annual net cost for Phase II of Long Bridge equates to the FY13 adopted budget for the county Housing Grants program ($8.6M) and is over two-thirds of the entire library operating budget ($12.4M).

<u>R&E Recommendation on the Parks and Recreation Bond</u>.

County revenues are facing considerable uncertainties on the immediate horizon due to BRAC federal office relocations, possible federal sequestration and an overall restructuring of the federal budget. Two recent articles in *The Sun Gazette* on August 13 and August 16 (copies of which are attached at the end of this report) highlighted increasing office vacancy rates and the possible ripple effect on Arlington homeowners.

Coupled with certain near-term cost increases delineated in the CIP for such projects as the Arlington Mill Community Center (operating subsidy of $3.3M/year), the Metro Silver line ($800K/year), the DHS consolidation ($2.343M/year), the year round homeless shelter/additional office space project ($631K/year), the operating subsidies for the Columbia Pike and Crystal City streetcars ($7.6M/year), and new costs for the ConnectArlington fiber optic project ($600K/year), along with additional cost pressures from Arlington Public Schools due to increased enrollments and possible increases in pension fund contributions due to shifting accounting rules, R&E sees the Long Bridge aquatics center as a luxury the County cannot afford. R&E accordingly recommends that Federation delegates vote to oppose the Parks/Recreation bond.

IV. Community Infrastructure Bond $28,306,000

As described in the CIP, this bond question has four components:

$11,000,000	Neighborhood Conservation Program (pp. C46-C47)
$13,475,000	ConnectArlington(pp. C21-24) and Fiber Project Transportation (pp. E66-67)
$3,625,000	Facilities Maintenance Capital (pp. C69-C72)
$206,000	North Side Salt Facility planning (pp. C112-C113)

The $11M for the Neighborhood Conservation (NC) program continues funding for citizen-initiated enhancements to residential areas.

ConnectArlington is the new fiber-optic network that will link County and School buildings, replacing the current I-Net system provided by Comcast, whose agreement with the County expires in July 2013. $6.355M of the 2012 infrastructure bond is targeted for this project. An additional $3.495 M is projected to be included in the 2014 bond.

Another $7.12M of the infrastructure bond is targeted for the transportation fiber optic project, replacing the current twisted-pair copper wire system (built during the 1980's) that controls our traffic signal system.

$3.625M is targeted for bonded projects for capital maintenance on County buildings for the next two years, supplementing a projected $9M in PAYG funding over the same period.

R&E Recommendation on the Community Infrastructure Bond. R&E sees the ConnectArlington and Fiber Optic Transportation projects in particular as vital, and it urges Federation delegates to support the Community Infrastructure bond.

V. Arlington Public Schools Bond $42,620,000

This bond has four components:

$28,100,000	Construction funds for new elementary school at Williamsburg site
$6,820,000	HVAC and roofing improvements
$4,500,000	Design funds for new elementary school at Carlin Springs/Kenmore site
$3,200,000	Design funds for additions at ATS ($1.6M) and McKinley ($1.6M)

In addition to the bond funding described above, the School Board will be using previously reserved funds for the design and construction of an addition at Ashlawn Elementary

($14.9M), with an additional $4M for the design and construction of the new elementary school at the current Williamsburg Middle School site.

Much has been written about the enrollment increases in Arlington schools over the past several years. While it is speculative as to whether (and to what extent) this trend may continue, the above-described projects deal only with current enrollment issues, not projected ones in future years.

<u>R&E Recommendation on the School Bond</u>. Opining on the individual merits of the specific projects proposed by the School Board is beyond the purview of R&E. R&E does have some concern about Williamsburg construction funds being included in the 2012 bond, since design has not yet been done. Nonetheless, R&E joins the Federation's Schools Committee in urging Federation delegates to support the School bond.

Submitted on September 27, 2012 by the Revenues & Expenditures Committee

Robert Atkins	Frank Emerson	Terry Showman
Jerry Auten	Wayne Kubicki, Chairman	Suzanne Smith Sundburg
Burt Bostwick	Roger Morton	Tim Wise

2012 County Bond Referenda
From County Manager Report dated 6/26/12
Only the "Question" Language will appear on November Ballot

1. **Metro and Transportation**

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum principal amount of $31,946,000 to finance, together with other available funds, the cost of various capital projects for the Washington Metropolitan Area Transit Authority and other transit, pedestrian, road or transportation projects?

EXPLANATION:
This proposal would fund a variety of transportation, road, pedestrian enhancement and transit projects across the County. The largest component of this proposal would fund Arlington County's share of WMATA/Metro's capital improvement program, including the Metro Capital Improvement Program to improve regional mobility and accessibility and relieve traffic congestion. This proposal would also provide matching funds for certain transportation projects that receive state and federal funding. Proceeds of this proposal would also fund a portion of the costs for paving local streets and roadways, as well as the WALKArlington, BikeArlington, and Neighborhood Traffic Calming programs. The County Board may reallocate bond funds among the various projects to the extent necessary or desirable.

2. **Local Parks and Recreation**

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum principal amount of $50,553,000 to finance, together with other available funds, the cost of various capital projects for local parks & recreation, and land acquisition for parks and open space?

EXPLANATION:
The proposed Local Parks & Recreation program would fund parks improvements and enhancements, and land acquisition for parks and open space. The largest component of this proposal would fund the design and construction of an aquatics, health and fitness center at Long Bridge Park and improvements to the surrounding park. Approximately $1.0 million for the Land Acquisition and Open Space programs is expected to fund strategic park acquisitions based on the Public Spaces Master Plan or other parks related needs. This proposal would also fund maintenance capital improvements such as playground, courts and other parks infrastructure improvements. The County Board may reallocate bond funds among the various projects to the extent necessary or desirable.

3. **Community Infrastructure**

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum principal amount of $28,306,000 to finance, together with other available funds, the cost of various capital projects for County facilities, information technology, and infrastructure?

EXPLANATION:
This proposal will provide funding for Board-approved Neighborhood Conservation projects. The Neighborhood Conservation Program provides funding for a variety of neighborhood identified capital improvement projects including street improvements (sidewalk, curb and gutter, drainage, paving), traffic management and pedestrian enhancements, park improvements, street lighting, recreational facilities, landscaping, and beautification.
This proposal will also provide funding for the County's information technology and public safety needs through installation of a public safety network, and facilities maintenance capital improvements, including design and construction of projects including but not limited to roofs, electrical and heating / cooling systems and other facilities infrastructure. The County Board may reallocate bond funds among the various projects to the extent necessary or desirable.

4. **Arlington Public Schools**

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum principal amount of $42,620,000 to finance, together with other available funds, the costs of various capital projects for Arlington Public Schools?

EXPLANATION:
This proposal would make funds available for the Arlington Public Schools' capital improvement program. The proposed bonds will fund the design and construction of various School facility projects including new elementary schools, building additions for additional classroom space and maintenance capital projects . The School Board may reallocate bond funds among the various projects to the extent necessary or desirable.

Impact of Higher Office-Vacancy Rate Could Have Ripple Effect on Homeowners

by SCOTT McCAFFREY, Staff Writer | Posted: Monday, August 13, 2012 7:29 am

Office-vacancy rates across Arlington are on the rise, and if the trend continues, the county government could lose a cash cow and homeowners could bear the brunt in the form of higher taxes.

The overall vacancy rate for commercial property countywide was 13.4 percent in the second quarter of 2012, according to figures from CoStar reported by Arlington Economic Development. That's an increase from 12.9 percent in the first quarter and was up from 9.3 percent a year ago.

Arlington's vacancy rate remained below the Northern Virginia average of 14.9 percent in the second quarter, but many other commercial corridors across the area have been showing an improvement even as vacancies rise in Arlington.

"We may be in uncharted territory," said Michael Foster, principal of MTFA Architecture and a member of the county government's Economic Development Commission. "We always have ups and downs in the economy, but our ZIP code carried us for the last 30 years. The resurgence of downtown, and Metro going west to Tysons and Reston, will obviously make the competition a serious matter."

Rich Doud, president of the Arlington Chamber of Commerce and a member of the Economic Development Commission, agreed that prospective tenants have a wide array of options across the metro area, and suggested that the county government needs to improve its image and streamline procedures to convince tenants to choose Arlington.

"Most every action with the county [government] causes an increase in the cost of creating new residential or office space," Doud said. "Whether it is 'voluntary' additional site-plan conditions or increased fees, the additional costs lead to higher pricing for the rental units. There is a direct, real connection that I don't believe is understood."

"If higher rates continue, our competitive position vis-a-vis neighboring jurisdictions erodes," Doud said. "Our days of being not only a more competitive place but a better place will disappear. I don't think any of us want that."

As with all real estate, the mantra “location, location, location” applies when it comes to office leasing. Different corridors of the county have seen varying degrees of vacancies:

* The second-quarter vacancy rate in Rosslyn was 13.9 percent, up from 13.4 percent a quarter before and 9.9 percent a year before.

* The vacancy rate in Clarendon/Courthouse was 11.5 percent, unchanged from a quarter before but down from 13.5 percent a year before.

* The vacancy rate in Ballston was 10.2 percent, down from 14.6 percent a quarter before but up from 8.4 percent a year before.

* The vacancy rate in Virginia Square was 6 percent in the second quarter, up from 4.1 percent a quarter before and 2.9 percent a year before.

The biggest office-vacancy concern is in Crystal City, where the second-quarter rate of 18.6 percent is approaching double the rate from a year before, according to county figures.

“We’ve essentially priced ourselves out of the federal office-space market,” said local resident Suzanne Smith Sundburg in a letter to the Sun Gazette.

She voiced concerns that replacing office buildings of modest size (and lease rates) with trophy buildings that reach to the sky could leave vacancy rates high for years to come. “And empty space brings in far less tax revenue than rented space,” Sundburg noted.

The county government has embarked on a collaborative effort with property owners to redefine and reinvigorate the corridor, including the planned introduction of a light-rail line through the corridor.

For each of the past two years, increasing commercial assessments have kept real estate tax rates for homeowners from rising more than they might have otherwise. Higher vacancy rates could have an impact – both macro and micro – on assessed values of commercial real estate across the county, since net income of properties is one key factor in the county’s arriving at assessed valuations.

Commercial-property values increased by 13.5 percent, to $30.1 billion, from 2011 to 2012, and now represent 49 percent of the overall county tax base. That’s up from 45 percent last year – more than double most neighboring jurisdictions.

Such a large commercial base brings in hundreds of millions of dollars in revenue to the county government's coffers, while requiring just a fraction of the total in services.

Virginia law requires that commercial and residential real estate be taxed at the same rate. If values of commercial properties decline while values of homes rise or stay steady, as happened in the earliest years of the economic downturn, any tax-rate increase would fall disproportionately on homeowners.

The county's transportation and transit efforts also could be significantly impacted by lower commercial-property values, as many improvements are funded by a tax surcharge paid by owners of commercial and industrial properties.

Elected Officials Voice Concern Over Increasing Office-Vacancy Rates

by SCOTT McCAFFREY, Staff Writer | Posted: Thursday, August 16, 2012 7:49 am

Arlington's elected leaders acknowledge they are wary of the high level of office-vacancy rates in the county, but are not ready to hit the panic button just yet.

"It's a concern. Not a huge concern, but something you need to be aware of," County Board member Libby Garvey said in response to news that the overall vacancy rate for commercial space in Arlington grew to 13.4 percent in the second quarter of 2012, and reached 18.6 percent in Crystal City.
Those rates had been 9.3 percent and 10 percent, respectively, a year before.

Garvey's level of anxiety was shared, perhaps a touch more aggressively, by County Board Chairman Mary Hynes.

"I am fairly concerned about this," said Hynes, who said that while the short-term implications of empty office space were not of end-of-the-world dimensions, the long-term impact could be "deeply concerning."

Among the woes being faced:

* Arlington is facing the ongoing base-realignment effort, faces new federal regulations for building security, has rents that are outpacing the General Services Administration's guidelines and could be caught in the middle of a Congressional "sequestration" fight in coming months.

* Several areas of the District of Columbia are redeveloping into commercial corridors, and the opening of Metro's Silver Line late next year will open up Tysons Corner to rail service, adding another competitor to Arlington's Rosslyn-Ballston and Crystal City-Pentagon City commercial corridors.

"The playing field is getting bigger," said Garvey, who was elected to the County Board in March after 15 years on the School Board.

Hynes suggested that ongoing redevelopment of the Tysons area will give Arlington some breathing room before Tysons becomes a significant competitor for tenants seeking transit access.

"Tysons is going to be a disaster for the next five years," she said.

Arlington benefits from having nearly half its real estate tax base coming from commercial property – a rate unheard of anywhere else in Virginia. That commercial base, now assessed at more than $30 billion, allows the county to keep its tax rate relatively low.

But any office space that goes unleased hits the county government in its wallet. Economic-development officials estimate that county coffers lose $5 per year for each square foot of space that isn't rented. A 1-percent uptick in vacancy rates equates to a loss of about $2 million in local tax revenue.

County Board members said the government needs to even more aggressively market itself as the smart choice for employers and employees, not just now but into the future.

"We seek a sustainable economy – built on our long-term, smart planning and a high quality of life," board member Jay Fisette said.

"Along with future transportation successes, I believe our community energy plan will further Arlington's economic competitiveness in the years ahead by reducing businesses' operating costs and advancing energy reliability," Fisette said.

But Garvey cautioned that the county government couldn't ignore more immediate concerns in the business and development communities that some Arlington leaders seem to hold a grudge against the commercial sector, forcing developers and tenants to jump through regulatory hoops that competing localities do not.

"I've heard [concerns] from the business community," she told the Sun Gazette. For developers and new businesses, "it can be a very difficult process. It doesn't feel linear, and it's time-consuming."

Garvey, Fisette and Hynes in July formed a majority bloc to scuttle a proposal by the Planning Commission to eliminate signage above 40 feet on commercial buildings, an idea decried by some of the top developers (and tenants) in the county. Garvey said the county government needs to be very careful in the signals it sends, and ensure that the business community feels wanted in Arlington.

"You need to treat people well," she said. "Everything is a trade-off, and it varies with each business. We need to find out where that balance is."

One bright spot for the county government: It is attracting the development of new hotels, which on a per-square-foot basis bring in more tax revenue than any other kind of real estate.