Silver Line/Dulles Metrorail, Northern Virginia (Webster Rail) - B

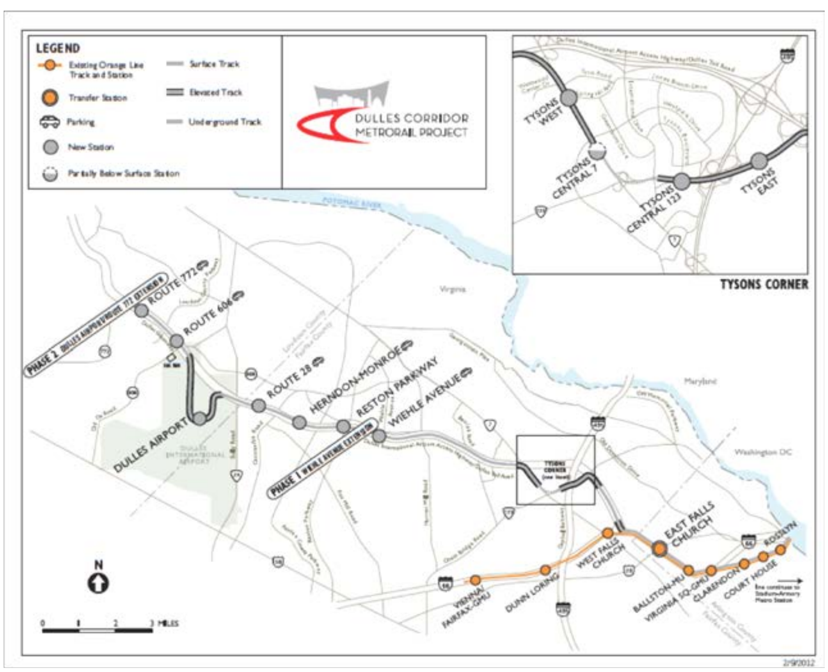
1 VALUE CAPTURE SUMMARY

This case focused on **special assessment districts.**

2 OVERVIEW AND DESCRIPTION

The Dulles Metrorail Corridor Project (Dulles Metrorail or the Project), also known as the Silver Line, is a 23-mile extension of the Washington DC region's Metrorail system. The project is being designed and built in two phases by the Metropolitan Washington Airports Authority (MWAA). Phase 1 consists of 11.7 miles of rail and five stations, connecting some of the DC Region's largest employment centers with downtown Washington D.C. Phase 2 will add 11.4 miles of rail and six stations, including a station at Dulles International Airport. Now operational since July 2014, Phase 1 has been transferred to the Washington Metropolitan Area Transit Authority (WMATA) and that phase is known known as the Silver Line, a designation that will also apply to Phase 2. Figure 1 shows a map of the Project. In total, the Project will increase the size of the Metro system by over 20 percent. Value capture sources have funded approximately 1/5 of the Project.

Figure 1: Dulles Metrorail Project Map (Dulles Corridor Metrorail Project, 2015)



The original funding plan was that the federal government, through grants from the Federal Transit Administration (FTA), would pay 50 percent of the entire project cost (i.e., both Phases I and II), the Commonwealth of Virginia/the Metropolitan Washington Airports Authority (MWAA) through grants and the Dulles Toll Road toll revenues would pay 25 percent, and local governments would pay the final 25 percent. Those percentages were subsequently revised as the federal amount remained constant at $900M and the other percentages increased respectively (Fairfax County 40120).

Overall, the two phases of the Project, totaling $5.7B, will have been funded with a combination of tolls, commercial tax districts, and state and federal grants, as shown in Table 1.

Table 1: Dulles Metrorail Funding (Dulles Corridor Metrorail Project, 2015)

Sources of Capital Fund	Phase 1	Phase 2	Rail Project Budget		TIFIA Loan
			Total	% of Total	
Federal	$900	-	$900[1]	15.8%	
Commonwealth of Virginia	252	323	$575[1]	10.1%	
Fairfax County	400	515	915	16.1%[2]	403
Loudon County	-	273	273	4.8%[2]	195
MWAA (Aviation Funds)	-	233	233	4.1%[2]	-
MWAA (Dulles Toll Road)	$1,354	$14,34	$2,788	49.0%[3]	1,277
Total Sources of Funds	**$2906**	**$2,778**	**$5,684**	**100.0%**	**$1,876 (33% of total)**

[1]Fixed amount; [2]Fixed percentage of total cost, [3]Residual

The local funding responsibility was allocated as follows:

- Fairfax County, 16.1%;
- Loudon County, 4.8%; and
- Metropolitan Washington Airports Authority, 4.1%.

This case focuses on the contribution of Fairfax County especially the first of its two transportation improvement districts (TID) (Phase 1 TID), which made up the majority of the value capture funding. The Phase 1 TID set the precedent for the Phase 2 TID and the Loudoun tax district.

Fairfax County's total 16.1% share of the Project is estimated to be approximately $915M, which will be finalized once the Phase 2 is complete in 2019. Fairfax County is expected to contribute:

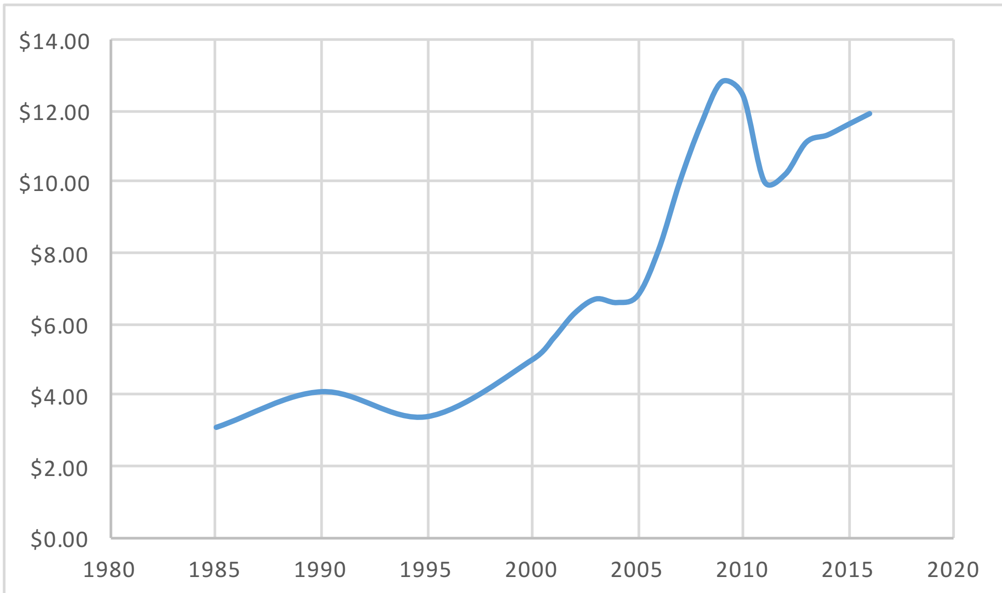
- For Phase 1: $400M from the Phase I tax district
- For Phase 2: $515M from the following:
    - $330M from the Phase II tax district
    - $185M will be supported by proceeds from the TIFIA loan that will be repaid using the County's Commercial and Industrial real estate tax and regional funds from the Northern Virginia Transportation Authority (NVTA) (Fairfax County 40120).

3 LOCAL ECONOMIC CONDITIONS AND MARKET CONSIDERATIONS

The Dulles Corridor is a portion of the Washington, D.C. region (the DC Region) in which a key portion of the economic activity in the DC Region occurs. This includes Tysons Corner with approximately 37 million square feet of office, commercial, and retail space, five of the Fortune 5000 companies; the Reston-Herndon area, a growing office area; and other properties along the Dulles Corridor on the way to Dulles Airport (FitchRatings, 2016).

The DC Region has benefitted from the growth of the federal government and ancillary businesses, including aerospace, IT, telecommunications. As Figure 2 shows, the assessed value of the taxable commercial and industrial properties in the Phase 1 TID essentially doubled from 2001 to 2010 (from $5.0B to 12.4B) and grew at a compounded annual growth rate (CAGR) of 4.6% from 1985 to 2016, despite enduring several major real estate cycle downturns as Figure 2 shows. This also included the impact of federal government budget sequestration cuts which reduced jobs at some major government defense and other contractors, some of whom are located on the Dulles Corridor (Fairfax County Economic Development Authority, 2016).

Figure 2: Assessed Value of Taxable Commercial/Industrial Property in the Phase 1 TID in $ billions (Fairfax County Economic Development Authority,2016)



Furthermore, projections show that the over the next 25 years, the Tysons area population is expected to grow in the corridor by 45 percent and employment by 63 percent (Metropolitan Planning Council, 2016).

4 CAPACITY, ORGANIZATION, COORDINATION, AND PARTNERSHIP

The planning and organization that went into the Dulles Metrorail is complex and goes back decades and is linked to the creation of the Dulles International Airport (IAD). The Dulles Metrorail, or a form of it (not necessarily on the same alignment), was always considered as part of IAD, but could not be realized for several decades, due to lack of funding at the local or Commonwealth of Virginia level (Dugan, 2014).

One of the major initiatives to push the Dulles Metrorail forward was a group of developers in the Dulles Corridor who agreed to fund a portion of the local share of the Project through special district tax financing. The group was called "Landowners Economic Alliance for the Dulles Extension of Rail (LEADER)," and were made up of the early landowners of Tysons Corner, including owners of the West Group and Lerner Enterprises. This group began to evaluate the possibility of rail connection to Tysons as early as 1980s, putting money into planning studies. The work went through several recessions in the early 80s and then 90s (Tysons Developer, 2016; Dugan, 2014).

LEADER's work heated up in the late 1990s and into the early part of the aughts in an effort to sign up 50% of the landowners by assessed value in the Phase 1 TID. Convincing major landowners and lease holders to support the effort, such as Mitre Corporation and Grumman, was relatively straight forward, since they understood the benefits of providing employees and visitors alternative transportation options in an increasingly congested corridor. Convincing smaller landowners was more difficult, since many of these owned or leased to small retail operations, including gas stations, strip centers, auto dealers. These smaller landowners did not necessarily value the benefits of the Phase 1 TID or were simply not interested in participating in the process. Furthermore, some developers had long-term leases with major corporations that they had to convince to accept the higher Phase 1 taxes that would be passed through to them in the lease (Tysons Developer, 2016).

LEADER spent much time and effort holding meetings and hiring well-known Virginia politicians, Chuck Robb and Linwood Holton, to help convince the remaining landowners (Tysons Developer, 2016), which they were ultimately successful at doing.

The Phase 2 TID format followed a similar legal structure as the Phase 1 TID. That effort failed the first time to win 50% of the landowners because the City of Herndon would not join the TID. Part of the concern was that Herndon businesses were supporting Project that benefit Tysons area competitor properties while Phase 2 project would be delayed.

The Project was very complex and as Table 2 shows, there were two major transportation agencies involved, two county governments, the Commonwealth of Virginia, and the federal government providing funding, financing, and negotiation participation.

Table 2: Major Project Participants, Especially in Value Capture

Partner	Role
Washington Metropolitan Area Transit Authority	Transit agency that took over the Project's Phase 1 and operates it and is expected to do the same for Phase 2, once it becomes operational
Metropolitan Washington Airports Authority	Airports authority that is overseeing construction of project
Fairfax County, Loudon County	Primary local governments that have public responsibility for value capture funding/financing through special districts
Commonwealth of Virginia	State entity provides Project grants and had enacted legislation allowing for special districts
LEADER	One of the major private developer groups that advocated for the Project and helped to organize the Phase 1 TID
US DOT	Federal Transit Administration gave New Starts grant and provided loan to Phase 2 of project; USDOT Secretary LaHood also played a role in bringing parties together to overcome Phase 2 challenges

5 MASTER PLANNING, ZONING AND OTHER REGULATORY CONSIDERATIONS

Dulles Metrorail stakeholders initiated a variety of planning changes that were following the Phase 1 TID formation. In general, these changes were made to allow denser, urban-like fabric around the Dulles Metrorail stations within the Phase 1 and Phase 2 TIDs. Many of these changes are expected to benefit some of the landowners which are affected by the Phase 1 and Phase 2 TID special assessments.

In 2010, Fairfax County adopted a Comprehensive Plan for Tysons (Tysons Plan). Concurrently, Fairfax County adopted a zoning ordinance amendment that established a new zoning district called the "Planned Tysons Corner PTC Urban District." These were related to a number of transportation initiatives, including design of an urban street grid, reengineering of major intersections, and implementation of a bike share program (Fairfax County Economic Development Authority, 2016).

Furthermore, Fairfax County with private participants created a new non-profit, called "Tysons Partnership" in 2011 that provided a comprehensive approach to talks that include marketing and branding, transportation, urban design/planning, public facilities and community amenities and finance (Fairfax County Economic Development Authority, 2016).

Securing the funding of the Dulles Rail was a pre-requisite for the Tysons Comprehensive Plan to be enacted. Since the adoption of the Tysons Plan, fifteen major redevelopment proposals have been approved or are pending approval within Tysons. These projects, and six rail-related projects approved prior to the Plan, are primarily located within ¼ mile of a Metrorail station and represent 61 million square feet of development (Fairfax County Economic Development Authority, 2016).

Fairfax County initiated similar planning changes under a comprehensive plan amendment which affected Wiehle Avenue station and the two other Metrorail stations, which were part of the Phase 2 TID, as well as similar planning of a grid of streets, bike share and new overpass planning. For the Wiehle Avenue station area, a number of zoning cases are under review which could add approximately four million of mixed use development (Fairfax County Economic Development Authority, 2016).

One of the issues for some landowners is that the Tysons Plan imposes additional fees for landowners, including Tysons Service District rates of $0.06 per $100 of AV (Fairfax Tax Rates). As Tysons continues to become denser over the next thirty years, these rates will remain in place. The additional $0.19 Phase 1 TID tax increased the base tax rate by 22%, not including other tax costs, such as for storm water, leaf collection, water that are assessed in certain parts of Fairfax County. In theory, this could have been a competitive disadvantage, but developer representatives believe that competing locations throughout the Washington, D.C. region have similar all-in tax burdens. Furthermore, the tremendous development at Tysons in the last five years does not suggest that the tax rates have been an obstacle (Tysons Developer, 2016).

Table 3: Dulles Metrorail Timeline, Focusing on Value Capture (Fairfax County 40110; Fairfax County 40120; Fairfax County Economic Development Authority, 2016; (Dulles Corridor Metrorail Project, 2015)

Project Stage	Date
FAA recommends reservation of median of Dulles International Airport (IAD) Access Highway for future transit line	1964
Dulles Access Rapid Transit sponsors study for transit line to IAD raising funds through assessments	1985
Virginia General Assembly permits creation of special taxing districts for transportation for landowners along Route 28	1988
FTA announces that due to funding limitations, Project cannot be funded as a single project	2002
City of Herndon turns down participation in special tax district out of concern their businesses would support a Project that benefit Tysons area competitors while Phase 2 project would be delayed	2003
Landowners submit Phase 1 TID Petition	2003
Fairfax County establishes Phase 1 TID	2004
Fairfax County establishes Phase 2 TID	2009
Fairfax County adopts Tysons Plan	2010
MWAA issues $343M of Dulles Toll Road Bonds	2010
Fairfax County issues $206M Phase 1 TID Bonds	2011
Fairfax County issues $42M Phase 1 TIDs Bonds	2012
Loudon County creates Metro Service Districts	2013
WMATA opens Phase 1 Line for passenger service	2014
TIFIA, Fairfax County, Loudon County close TIFIA loans, in part supported by Fairfax County Phase 2 TID and Loudon County Metro Service Districts	2014
Phase 2 Completion (expected)	2019

6 LEGAL STEPS

6.1 Phase 1 TID

Fairfax County's obligation to fund the $5.7B project was 16.1% or $400M for Phase 1 and $515M for Phase 2 (Fairfax County 40110). Fairfax County established a special tax district on commercial and industrial properties in 2004 to fund the county's portion of Phase 1 TID. The Phase 1 TID consisted of most of the Tysons Corner Urban Center and an area around the Phase 1 stations as shown in Figure 3.

The Phase 1 TID is authorized by Chapter 15 of Title 33.1 of the Code of Virginia (the Act). Commercial and industrial property within the TID created pursuant to the Act can be taxed to raise funds for transportation improvements in the TID. Such a district can be created upon the petition of the owners of at least 51 percent, measured by land area or assessed value, of the real property located within the proposed district that is zoned or used for commercial or industrial purposes. The properties in the petition constituted over 64 percent of such property located within the Phase 1 TID, measured by assessed value (Fairfax County 40110).

Figure 3: Phase 1 TID Map, (Fairfax County Economic Development Authority, 2016)

Furthermore, per the Code of Virginia § 33.1-435, properties zoned to permit multi-unit residential use but not yet used for that purpose and multi-unit properties primarily leased or rented to residential tenants or other occupants by an owner who is engaged in such a business are deemed to be in commercial use for purposes of the Act. No other residential properties are subject to any tax that may be levied on behalf of such a district, even if they are within the boundaries of such a district (Fairfax County 40110).

Phase 1 TID allows a tax level of up to $0.40 per $100 of assessed fair market value (AV). However, under the terms of the petition, the Fairfax Board of Supervisors cannot adopt a plan of finance that would be reasonably anticipated to require a tax greater than $0.29 per $100 of AV, assuming growth in assessed value of 1.5%, a political but not legal obligation (Fairfax County Economic Development Authority, 2016).

The most recent tax rate is $0.19 per $100 of assessed value (Fairfax County 40110).

The Phase 1 TID financing does not obligate the Commonwealth nor Fairfax County to impose the annual Special Improvements Tax or to levy taxes. It is truly "non-recourse" to the County (Fairfax County Economic Development Authority, 2016).

6.2 Phase 3 TID

Fairfax County's obligations for Phase 2 of the Dulles Metrorail were $515M, which were Fairfax County's Phase 2 obligation, funded differently than Phase 1. The Phase 2 TID was expected to raise $330M. The remaining amount of $185M is be supported by proceeds from the TIFIA loan that will be repaid using the County's Commercial and Industrial real estate tax and regional funds from the Northern Virginia Transportation Authority (NVTA) (Fairfax County 40120).

Fairfax County received the petition to form that the Phase 2 TID in 2009 and Fairfax County approved the TID at the end of 2009.

The Phase 2 TID tax rate was set at the end of 2009 at $0.05 per $100 and increased five cents each year to $0.20 per $100 in FY 2014. The Phase 2 TID can be as high as $0.25/$100 of assessed value depending on financing needs, which in total are $403M of a TIFIA loan to fund Fairfax County's Phase 2 obligations (Fairfax County Economic Development Authority, 2016).

Unlike the Phase 1 TID, the Phase 2 TID revenues are not pledged to the TIFIA loan. Rather the County commits to use Phase 2 TID revenues plus the NVTA funds to repay the loan. However, there is no legal obligation to appropriate those monies. Nor is there a direct obligation to pay repay the loan with Fairfax County taxes (Fairfax County Economic Development Authority, 2016).

6.3 Loudoun County Special Tax District

Loudoun County created a special tax district, the "Metrorail Service District," to pay for its portion of Phase 2 of the Project. The TID consists of properties around the Phase 2 Loudon County stations. The levy within the TID is $0.20 per $100 of value (APTA, 2015).

6.4 Garages

In order to manage the Dulles Metrorail's Phase 2 costs, the planned Phase 2 parking garages, in Fairfax and Loudon Counties, were made the separate project delivery and financial responsibility of those counties.

Fairfax County is responsible for the garages at Herndon and Innovation Center Station, while Loudoun County is responsible for the garages at the Route 606 and Route 772 stations. In Fairfax County, these stations are financed with TIFIA loans and funded with parking revenues and the County credit (Fairfax County Economic Development Authority, 2016).

7 BUSINESS CASE

As shown in Table 1, the historical special tax revenues collected by the Phase 1 TID the have grown steadily from 2011 onwards, reflecting strong asset valuations as well as a slight decrease in the tax rate from $0.22 in 2012 to $0.19 in 2016 (Fairfax County Economic Development Authority, 2016).

8 CREDIT WORTHINESS, FINANCE, AND FUNDING

The Phase 1 TID bonds were rated AA, Aa1, and AA by Fitch, Moody's, and Standard & Poor's, respectively (Fairfax County Economic Development Authority, 2016).

Key strengths according to FitchRatings of these bonds was the following (FitchRatings, 2016):

- Good coverage and liquidity of 1.45 maximum annual debt service (MADs) and 3.1x at the maximum legal rate
- County target a minimum coverage ratio of 1.5x
- Tax rate flexibility, allowing the rate to change to maintain revenue at a sufficient level to cover debt service
- Strong, but concentrated tax base: Phase 1 TID includes corporate headquarters of five of Fortune 500 companies, growing assessed valuation.

9 TAKEAWAYS

The Dulles Metrorail, combining Phases 1 and 2, is one of the largest single transit rail projects and value capture efforts in the U.S. that have been undertaken in the last two decades. As with all Projects, there are a number of unique elements, yet a number of these elements are typical of large projects as well as the respective value capture issues. These include the following:

- **Growing Market:** The Project was located in a growing corridor in a growing region. As Figure 2 shows, the Phase 1 TIDs assessed value grew healthily over the last two decades. This relative prosperity motivated private landowners and gave local and state policymakers confidence in the Project.
- **Committed Public and Private Participants:** Numerous public and private participants were committed to the Project for years, overcoming a variety of challenges, including questions about alignment, planning delays, debates about costs of project elements (such as tunnels), interregional differences, and federal funding limitations. For value capture, private developers, like those initiating the Phase 1 TID, were highly committed for two decades in their advocacy and resources for studies, legal costs, and paid spokespeople. This advocacy continued through economic downturns which in retrospect appear to be small "blips" in time series as shown in Figure 2 but at the time severely challenged a number of businesses who were advocating for the Project.
- **Meaningful Planning:** The Tyson's Plan and similar planning throughout the corridor reflected the transportation impacts of the Dulles Metrorail—fostering a denser, more pedestrian-oriented area. It also allowed developers to further leverage their landholdings, justifying their early investment in advocating for the Project and setting up the TIDs.
- **Managing Value Capture Burden:** It will take a decade or more to truly assess the benefit/cost of the TIDs and their impact on land values. Based on the available anecdotal evidence, the increased assessments in Fairfax and Loudoun County do not appear excessive and are reportedly not creating a competitive disadvantage for developers. Nevertheless, obtaining agreement on special assessments among smaller land holders was a challenge, given their relative indifference towards the Project.
- **Phasing Flexibility:** The Project and the value capture effort underwent several phases, including splitting the Project into two phases and splitting the Fairfax County TID into two. The Project and the value capture participants nimbly responded to these changes.

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