

**City of Falls Church
Economic Development Authority
Business Meeting Minutes - APPROVED
Tuesday, March 1, 2016 – 7 p.m.
Falls Church City Hall – Dogwood Room
300 Park Avenue, Falls Church, VA 22046**

- I. Call to Order** – The EDA meeting was called to order at 7:02 p.m. by Vice Chairman Pelton.

EDA Board Members Present: Barry Buschow, Bob Young, Erik Pelton, Brian Williams, and Ed Saltzberg.

EDA Members Excused: Mike Novotny and John Sandoz.

EDA Youth Representatives Absent: Tyler Gogal and Kiran Menon.

EDO Staff: Rick Goff, Becky Witsman, and Ingrid Racine.

City Staff Present: Cindy Mester, Mike Collins, Sam Khamis, and Gary LaPorta.

Public Attendees: City Council Members Letty Hardi and Phil Duncan; Planning Commissioner Lindy Hockenberry; Commissioner of Revenue Tom Clinton; and Mike Diener.

II. Approval of February 2, 2016 Minutes

Mr. Buschow moved approval of the minutes, seconded by Mr. Saltzberg, and approved unanimously.

III. Petitions from the Public

Mr. Diener, a locally based CPA, expressed his concerns about the City's Technology Zone (TZ) program as a tool for economic development. He said the program is subjectively targeted to one business category, not well thought out, and not promoted by the City. He added that he does not want to see the program lost, but better structured, and with measureable goals. Mr. Diener said he has had an accounting business in the City for 25 years. He said he always tells his clients not to locate a business in Falls Church because the City's taxes are too high and they are sure to get audited by the City.

Mr. Pelton responded that it is the EDA's intent to address many of the issues Mr. Diener raised with revisions to the TZ program. Mr. Diener said he doesn't like the proposed three-person committee to determine program eligibility. He said eligibility for TZ participation should continue to rest solely with the Commissioner of the Revenue's staff.

Mr. LaPorta commented that more information about the TZ program needs to be publicized. He also said that he is opposed to the EDA's proposal, now included in the City's proposed Capital Improvement Plan (CIP), to build a "half-million dollar park."

IV. Petitions from the Board

Mr. Buschow informed the board that he will be moving to Culpeper in the next three-to-four months and volunteered to vacate his seat on the EDA immediately at the board's discretion. Mr. Pelton said the board invites Mr. Buschow's continued service until such time as he moves. He added that Mr. Buschow provides valuable service to the EDA and will be greatly missed.

Mr. Pelton reported that he attended the City Council's retreat on Feb. 27, along with Chairman Novotny. He said that Council recognized the EDA's recent joint meeting with the CACT as a model for intra-board collaboration.

V. New and Continuing Business

a. Virginia Developer Proffer Legislation

Assistant City Manager Mester, staff's legislative liaison with Richmond, distributed copies of the latest version of a bill approved by the Virginia Senate and House and forwarded to the governor for signature. The bill as originally written may have had negative consequences for the City by limiting its ability to receive proffers from developers of mixed use projects. Normally the City approves these projects through a special exception application process involving voluntary concessions negotiations and this would not have been impacted by the legislation.

Lobbying efforts by the City were successful, Ms. Mester said, and will mitigate the impacts of the bill in urban areas and on mixed use development. The Home Builders Association pushed approval of the bill to restrict proffers because jurisdictions had overreached in some instances their authority. Some single family residential projects carried expectations that developers pay for "impacts" lacking a logical nexus with a development, she explained. Despite some restrictions limiting the scope of the bill, it will change the definition of "public facilities" subject to proffers, eliminating libraries from that category. However, the City will still be able to seek voluntary concessions for its library using the special exception approval process. Ms. Mester said the City will revise some of its planning documents and will designate certain revitalization districts (including the GMHS site), so that City practice conforms to the new statute, once enacted.

b. Update on Downtown Public Plaza

Mr. Goff told the board that the Planning Commission has recommended to City Council by a 6 -1 vote that the EDA's grant for a downtown plaza be cut from \$550,000 to a maximum project limit of \$250,000. The Commission advised Council that the EDA should retain \$300,000 for land banking and focus more of its efforts on that. Mr. Goff added that the city manager will forward his own CIP recommendations to City Council and they can differ from those of the Commission.

Ms. Mester said that the city manager is leaning toward recommending full project funding from the EDA, but has not made a final decision. There will be a formal CIP presentation to City Council by staff on March 14. There will be a number of public hearings, work sessions, and town hall meetings on the CIP, as well, before final approval of the plan.

Mr. Buschow said that the purpose of the EDA's grant for the plaza is to improve the downtown and encourage more private investment. The question was raised whether the EDA could proceed with the project outside of the CIP process. Ms. Mester said that the proposed plaza is located on City-owned land, so such an effort would not be possible. Mr. Williams noted that the EDA's land banking policy is broader in scope than its name implies and the policy covers the sort of investment in public improvements proposed by the EDA.

Mr. Pelton urged board members to continue to lobby for the project both publicly and privately. Mr. Williams commented that \$250,000 is insufficient to build the quality of plaza and improvements that the EDA paid architects to design. He said the \$550,000 EDA grant should be accepted either in full to pay for the plaza as envisioned or the EDA should withdraw its support for the project. Mr. Goff noted that Mr. Novotny had expressed those sentiments earlier in the day in an email message to him. The consensus of the board was to adopt the position expressed by Mr. Williams. Mr. Pelton thanked Ms. Mester for attending the EDA's meeting.

c. EDO Website and Uses Presentation

Ms. Racine led the board through a PowerPoint highlighting her work on creating a new EDO website at choosefallschurch.org and [.com](http://choosefallschurch.com). She explained how the new website connects with the City's and how it contrasts with the look, interactiveness, and content of the old EDO website. She showed the new website "live," and explained how it is being accessed by visitors, including volume of visits. She also noted the creation and use of subscription lists for disseminating information.

Ms. Racine summarized her efforts and success in networking with news media for coverage of newsworthy material from the EDO. She said the EDO has embarked on a campaign to bring more medical practitioners to the City, explaining that Falls Church has a strong and growing nucleus of doctors, dentists and other medical professionals because of its great location between two major hospitals. She showed the "landing page" she has built to inform prospects seeking office space the advantages of locating in the City. Ms. Racine also told the board about other steps she is taking to assure a successful recruitment campaign.

Of particular interest to the board, Ms. Racine illustrated website content about the proposed downtown public plaza and how people can follow the project through the approval process. She completed her presentation by describing new marketing efforts underway, including video productions with testimonials by business owners and City leaders as well as videos featuring available commercial space. The EDO is close to completing a more user-friendly, online commercial database, she added. Ms. Racine told the board she is presenting to City Council on March 7 a report on implementation of the EDO's marketing strategy. A Q&A session followed.

Mr. Pelton said the new website looks great, is organized well, and new materials featured are a huge improvement. Mr. Buschow said staff's ability and commitment to update the website is critical to more and better promotion of the City. Mr. Williams complimented Ms. Racine on her work and expressed the importance of measuring success through metrics. He offered suggestions about measuring broader goals such as lower commercial vacancies, more restaurants, etc. He stressed that the EDO's marketing strategy needs to emphasize Falls Church City so there is clarity about its source and the City's precise location. This will be an opportunity to distinguish the City from Arlington and Tysons and highlight the City's unique character, Mr. Williams said.

Mr. Young commented that the ultimate metric for the EDO's marketing strategy will be new businesses attracted and retained. He said the EDO doesn't take enough credit for the work they have done and successes they have achieved in attracting businesses to the City. He suggested that new businesses be featured on the EDO website. Mr. Saltzberg said he liked the idea of video and other forms of testimonials on the website. He said visual material is very effective, business profiles should be produced, and the home page should consider including rotating slider images across the top. He asked to have all board members added to EDO distribution lists.

d. Revisions to Technology Zone and Commercial Property Tax Abatement Programs

Mr. Goff said that revisions to two long-standing City tax abatement programs had been under review for about a year, were assigned to an EDA subcommittee, and recommendations are ready now for the board's consideration. He said the city attorney had also reviewed the proposed program changes for conformity with underlying Virginia statutes and City Code standards.

Mr. Goff said the purpose of program revisions to the Technology Zone Program (TZP) is to create greater demand for existing and new office space in the City, which will generate a larger day population that patronizes local businesses. Revisions to the Commercial Property Tax Abatement Program (CPTAP) are intended to focus a seldom-used program as a more powerful incentive for owners to rehabilitate, expand and replace old with new office buildings in the City. He said that staff and the committee looked at best practices around the state, and especially the region, for use of these programs. Arlington and Fairfax counties each have TZPs, he noted.

Ms. Witsman reviewed specific, proposed TZP revisions:

- Narrow and clarify eligibility definition to companies that primarily create, design, research, or develop tech hardware and software;
- Abate only those BPOL taxes related to these qualified functions;
- Exclude certain "tech" services from program and tax abatement eligibility;
- Shorten the period to six months for businesses to apply following City licensing;

- Create an advisory committee of three to determine eligibility and improve program consistency, transparency and credibility;
- Create a 60-day turnaround by the City for eligibility determination;
- Require more than one employee for a qualified business and a location in commercially zoned property; and
- Extend tax abatement benefit for eligible companies from three to five years.

Mr. Pelton invited public attendees to comment on the TZP recommendations. Mr. Khamis, the City's business tax auditor, said that five-year abatement periods are too long and 100 percent abatement of BPOL taxes is too generous. He said Arlington's program is targeted only to certain revitalization areas and the City cannot compare itself to Fairfax County. He suggested that abatements, if the program continues, should escalate from partial to full abatement over time to encourage businesses to stay longer in the City.

Mr. Clinton said that if a business cannot pay its BPOL tax, it is probably not viable, anyway. He added that permit fees and the City's general reputation are greater barriers to businesses locating in Falls Church than the BPOL tax. He suggested that among business categories not eligible should be legal services.

Mr. Diener repeated his earlier statement that he encourages businesses never to locate in the City due to its high business tax rates. Mr. LaPorta said that BPOL taxes for all businesses need to be reduced.

Mr. Williams said that Virginia law allows abatements for tech companies as a special category, but has not made abatements available to other types of businesses. He said the City should continue to extend the program to tech companies to be competitive with its neighbors and as a marketing tool for office attraction.

Mr. Pelton moved that the EDA subcommittee's recommendations (with the addition of legal services to the list of ineligible businesses) be forwarded to City Council with the understanding that relevant boards and commissions, including the Chamber of Commerce, be given an opportunity to review and react to proposed program revisions. The motion was seconded by Mr. Young and approved by a vote of four in favor and one opposed (Mr. Buschow).

Mr. Goff reviewed the 20-year history of the CPTAP in the City, noting that the program has been seldom used. He said staff's review of the underlying Virginia statute and similar programs around the state reveal many variations and much flexibility in the use of tax abatements for commercial property improvements. The EDA subcommittee and staff recommend revising the program to encourage rehab and expansion of office space and the replacement of old with new office buildings.

Ms. Witsman summarized proposed program revisions as follows:

- Eligible commercial properties will be limited to office or the office portion of all-commercial buildings;

- Eligible office improvements, expansions, and replacements must be at least 10,000 square feet;
- Eligible improvements must increase assessed value by at least 100 percent;
- Real estate taxes abated will be 100 percent on the assessed value of office building improvements for the first 5 years and 50 percent on the assessed value for the next 5 years;
- The 10-year abatement period is recommended versus the current 5-year limit; and
- The application fee will be increased from \$50 to \$250.

Mr. Goff pointed out that the proposed levels of abatement could be very significant, if approved, for a replacement office building such as 400 N. Washington. He said the board should carefully consider whether such incentive levels are necessary to achieve City objectives or if levels perhaps at 50 percent abatement for the initial 5 years and 25 percent for the following 5 years are sufficient.

Mr. Young said that market conditions have prevented office development from occurring in the City in any meaningful way. He said that the levels of tax abatement proposed by the subcommittee could allow landlords to reduce rents by \$3 - \$4 per square foot. He added that the proposed 10-year abatement period is extremely short in a City's history, but will be a strong incentive for individual office projects. Many years of fully-realized tax revenue will flow for the City from new and improved buildings following a 10-year abatement period. He said his experience as a developer working to fill retail and restaurant space has taught him that prospective tenants seek a day population of customers that the City currently lacks.

Mr. Pelton suggested that a cap be placed on any tax abatement approved through the program. Mr. Saltzberg said there also are other strategies for incentivizing office development. He said an approach such as that used successfully by the City and EDA to bring BJ's to Falls Church could be applied to an office project to reduce development costs through tax sharing. Abating or diverting taxes for public purposes to attract a desired project outcome is a great tactic, he pointed out, to leverage taxes that the City would not otherwise receive without providing a targeted incentive.

Mr. Williams suggested that staff provide the board with case scenarios showing tax revenue impacts for several types of office rehab and replacement projects and with different options for structuring abatements. Mr. Pelton made a motion, seconded by Mr. Young, to table the subcommittee's recommendations for the CPTAP until April for further consideration at that time. The motion also contained the understanding that TZP recommendations approved earlier by the board be bundled with a recommendation for the CPTAP so that both programs are presented at the same time to City Council. The motion was approved unanimously.

e. EDA Retreat or Other Follow-Up Items

Mr. Pelton said that he is working with staff to gather from existing shuttle providers more information and explore options for collaborative private service in the City. He

also said that discussion of land banking by the Planning Commission with respect to the downtown plaza project suggests that the board should revisit and review the status of the program.

VI. Staff Reports

a. Development and Business/Commercial Revenue

Mr. Goff briefly summarized packet information about tax revenue trends from commercial properties and businesses in the City provided by the finance office. He noted that sales and BPOL taxes are expected to have a significant positive bump in FY 2017 due to the soon-to-open Harris Teeter and Fresh Market stores. He also reported that commercial development accounts for \$87 million of \$122 million in new construction value in the City. He said that City CFO Richard LaCondre has offered to brief the EDA on these and related topics should the board invite him to do so. Mr. Pelton expressed his interest in inviting Mr. LaCondre to a future meeting.

b. Update on Development Projects

Mr. Goff provided status reports on Tradition Place, Insight's Broad and Washington project, Stratford Motor Lodge site, and the 400 N. Washington office project.

c. Business Report

Ms. Witsman provided a preview of her quarterly business and real estate report. She listed businesses that have recently opened and are scheduled to open soon. She reported on the status of the Lincoln at Tinner Hill, 301 W. Broad Street, Kensington, Holiday Inn Express, and the "Lily" Building across from the Falls Church Episcopal Church.

VII. EDA Member Reports

Mr. Pelton said the recent blizzard was a reminder that the City needs to be more proactive in informing commercial property owners that they need to clear their sidewalks of snow promptly.

VIII. Other Business: None

IX. Adjournment

A motion was made to adjourn, which was seconded, and carried unanimously. The joint meeting adjourned at 9:47 p.m.

