The GMHS High School Campus Project Capital Finance Plan

Background Summary

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I. Introduction

On July 24, 2017, the City Council adopted an ordinance to place a referendum on the November 2017 ballot for issuance of up to $120 million in general obligation bonds for a renovated high school and a portion of the middle school. The sections below provide a summary of the funding plan, its fiscal impact along with the underlying assumptions for the George Mason High School capital project. It should be noted at the outset that the underlying assumptions may change – interest rates, actual yield on the land transaction, actual tax yields all may vary. Accordingly, this paper is intended to provide a reasonable range of expectations for citizens and decision makers on the projected costs of the George Mason High School project.

II. School Cost Assumption

On April 24, 2017, the City Council adopted the FY 2018-2022 Capital Improvement Program as part of the annual budget development process. At that time, the Council expressed the intention to amend the CIP for the GMHS project upon completion of a feasibility study. A recently conducted school feasibility study by Perkins Eastman has resulted in a total cost of $120 million including bond issuance cost for the project.[1] This entails the construction of a new high school and the renovation of a portion of the middle school. On July 24, 2017 the City Council adopted an ordinance to amend the five year CIP program to include the $120 million High School project.

A high level break down of the costs elements for the school project are as follows:

Construction Cost	$ 110.0	Million
"Soft" Costs	13.8	
30% of listed reductions	- 6.5	
Initial Financing Cost	2.7	
Total Debt Amount:	$ 120.0	Million

III. Debt Issuance and Debt Service Cost Summary

Based on the projected cash flow requirements of the project, the City would issue up to $120 million in general obligation bonds in three phases assuming a 30-year term with repayments principle and interest structured as level payments over the 30 year life of the bonds.

[1] Perkins Eastman Feasibility Study: https://drive.google.com/file/d/0B7vaFg7PcgKyQlZubmpJeFp6eDA/view

A summary of the timing of the debt issuances for this project, and their assumptions for interest and term is shown in the table below:

Fiscal Year	Amount of Issuance	Percentage of Project Cost	Assumed Interest Rate
FY 2018	$18 million	15% (design)	3.5%
FY 2019	$54 million	45% (construction)	4.5%
FY 2020	$48 million	40% (completion)	5%
Total	**$120 million**	**100%**	

This schedule of debt issuance would result in an estimated required annual debt service of approximately $7.4 million during the thirty year term of the bonds. $7.4 million in debt service is the equivalent of 15.5 cents on the Real Estate Tax Rate.[2]

It should be noted here that in arriving at this tax equivalence figure, three cents are already assumed to be available for financing the high school project. This is because a) the FY2018 Budget includes 1.5 cents on the RE Tax rate to pay for Capital Reserves, which can be repurposed for debt service after the bonds are issued; and b) a higher return on investment on the pension contribution beginning in FY 2019 will generate the equivalent of an additional 1.5 cents on the tax rate.[3]

In summary, the cost to finance the high school project is projected to be $7.4 million per year, which is the equivalent of 15.5 cents on the Real Estate Tax Rate, or $1,085 for the average home (valued at $700,000) in today's dollars. The next section provides a discussion of the potential to reduce this cost to the tax payer, through the sale or lease of up to ten acres of the GMHS campus for commercial development.

IV. Commercial Development Background and Assumptions

With the construction of a new high school, the School Board would tear down the old building and free up as much as ten acres of land which would be offered for sale or lease for

[2] Total assessed value of taxable real estate in the City of Falls Church is just over $4 billion in 2017; accordingly, each penny on the real estate tax rate generates $400,000 in revenue to the City.

[3] In 2015, the City Council invested $9.2 million in the City pension fund from Water System sale proceeds, with the express intent to use the "return on investment" to defray future capital costs.

private commercial development. A 2014 Urban Land Institute "Technical Assistance Panel" (ULI TAP) of area real estate experts and practitioners concluded that market interest in this land would be high due to its excellent location near the West Falls Church MetroRail Station, easy access to and from I-66. The ULI TAP concluded that tax yield from such development could defray 50 to 80% of the cost of the school, using the assumptions available at that time (which included an assumption of a $100 million school, rather than a $120 million school).

More recently, an economic study by the commercial real estate advisory firm, Alvarez & Marsal, estimates the City could potentially earn roughly $43 to $45 million from a long-term lease or sale of these ten acres.[4] This assumes a development program that is 70% multifamily residential, 30% commercial with retail, hotel, and office uses. This is a development program for $1.1 million square feet, with mixed use buildings generally 5 to 8 stories tall.

To calculate future net tax yield, the City used its fiscal impact model, which has been used for the past 13 years to calculate gross tax revenues and gross government expenses for school, public safety, etc. The result is a net tax revenue calculation. Based on the City's model, and the development program described above, the site could exceed $3 million annually (in 2017 dollars) once fully developed after the high school is complete.

The City Planning Commission is developing a land use plan for the GMHS Campus.[5] Two town hall meetings have been held as part of this process, to produce a high level development concept for the property, laying out streets, preferred development patterns, open space, and design standards.

In order to calculate the impact of such a transaction and future net tax yield, the following assumptions on timing were used:

Schedule of Transaction Payments:

2023: First of three payments is received, for $15 million
2024: Second payment is received, for $15 million
2026: Third and final payment is received, for $10 million

(Note: this should not be taken as the City's preferred transaction schedule. It will be the City's interest to receive the best price on the most rapid schedule. This is a scenario used for modelling purposes only.)

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[4] Alvarez & Marsal Valuation Report: http://www.fallschurchva.gov/1599/High-School-Campus-Project
[5] For illustrations of development concepts: http://www.fallschurchva.gov/1599/High-School-Campus-Project

Net Tax Yields over time:

Fiscal Year	Est. Tax Yield	Assumption
FY 2022	$540,000	RE Taxes on raw land
FY 2023	$540,000	"
FY 2024	$540,000	"
FY 2025	$797,179	Phase 1: 25% of Total Net Fiscal Impact
FY 2026	$797,179	"
FY 2027	$1,594,359	Phase 2: 50% of Total NFI
FY 2028	$1,594,359	"
FY 2029	$2,391,538	Phase 3: 75% of NFI
FY 2030	$2,391,538	"
FY 2031	$3,188,717	Phase 4: 100% NFI
FY 2032	$3,188,717	"
FY 2033	$3,188,717	"

(Note: figures are listed in 2017 dollars with no factor for inflation. These figures will change, possibly significantly, based on the actual development program)

Taken together, the land transaction plus future tax yield from the economic development at the existing campus site could potentially reduce the annual debt service for the High School project to approximately less than $2 million, relative to the $7.4 million noted in Section III above. This is the equivalent to an increase of the Real Estate Tax Rate by roughly 4 cents starting in FY 2019 (assuming the same 3 cent reduction described in Section III).

These tax impacts are for the Capital Improvements alone, and do not include any possible increases in operating expenses over the period shown. A separate analysis of operating expense trends relative to operating revenue trends was presented to City Council on July 26, 2017.

V. Summary

The range of tax impacts with and without the land sale/lease reflecting future potential tax yields is expected to be between 4 cents to 15.5 cents on the Real Estate Tax Rate. The four cent scenario takes the assumptions from outside experts on the sale or lease value of the ten acres proposed for economic development, the assumptions from outside experts on a market feasible development program, and the City's own analysis of net tax yield from that development program.

The impact on the Real Estate Tax Rate is heavily dependent upon the successful marketing and sale of the ten acres of existing campus land and the potential tax yields from commercial development on the school campus site.

Future Council action would be required to utilize the sales/lease proceeds and the tax yields towards this project.