

John Gerner's Comments on Davenport November 2nd Presentation

The following comments represent my views as a member of the Navy Hill Development Advisory Commission, and are not intended to represent the position of the entire commission. References are footnoted and linked to original sources.

David P. Rose, Senior Vice President of Davenport & Company, made a presentation to the commission on November 2nd in response to my October 19th presentation titled "Preliminary Due Diligence Review of Proposed Arena Bond Financing and Introduction of the Commission Financial Model."^{1/} The Davenport presentation is available on the commission website at: http://www.navyhillcommission.org/Davenport_Presentation_11-02-2019.pdf

Bond Uncertainty

Page 3 of the Davenport presentation responds to my presentation slide titled "Overall Bond Uncertainty – EDA Determines Details" and reproduces the original slide. My main point was the current uncertainty of bond details concerning the proposed Navy Hill project, not the specific role the EDA has. The Cooperation Agreement in Ordinance 2019-211^{2/} does not contain amounts or ranges for the bonds used to finance the proposed new arena. The uncertain amounts include the total amount of the bonds, the interest rate range, and duration. The numbers that have been used in presentations are estimates, assumptions, and expectations.

City Council Involvement

Davenport states on Page 4 that "The City/City Council negotiates and sets all terms." These are two separate decision makers within Richmond city government, and should not be combined at this point of the process. "The City" is City Administration, which has already accepted the developer proposal and negotiated the currently proposed terms of the agreement. City Council is now considering that proposed agreement and has not yet made its decision. City Council was not directly involved in negotiations and did not set the terms of the proposed agreement. It may amend these terms before making a final decision, but it has not yet done so. Even then, City Council would be working with very lengthy and complex legal documents. The Draft Risk Matrix presentation had similar concerns.

In the past, City Council was often asked to indicate its initial support of proposed development projects through a non-binding support resolution. This was the case with the Washington football team training facility^{3/} and the proposed Shockoe Bottom ballpark project.^{4/} That did not occur for the proposed new arena. The current FY2020-2024 Capital Improvement Plan^{5/} approved by City Council does not include a new arena. My research of past City Council legislation did not find an official position that it was interested in considering this option.

Tax Revenues from Existing Properties within the Increment Financing Area

Page 6 of the Davenport presentation responds to my presentation slide titled "Planned Tax Revenues from Existing Real Estate Properties" and reproduces the original slide. My main point was that the proposed Navy Hill Fund would significantly overlap with the City of Richmond's future General Fund. The Navy Hill Fund therefore would include hundreds of millions of dollars in incremental tax revenues from existing real estate properties within the expanded increment financing area that would normally go to the city's future General Fund. This is a complete presentation of those revenues using numbers from MuniCap,^{6/} the main source for bond-related financial numbers.

The “Do Nothing Scenario” Comparisons

Davenport expanded my revenue analysis to include certain estimated expenses in order to determine “net revenues” based on its “Do Nothing Scenario” analysis. These “City Incremental Costs for the First 5 Years” on Page 9 include an estimated \$12 million for “Coliseum Demolition Costs” during that period. However, the current FY2020-2024 Capital Improvement Plan^{5/} approved by City Council does not include demolition of the existing Coliseum. If this assumed \$12 million cost is removed from the calculations on Page 9, the “Net Revenues for the First 5 Years” for the “Do Nothing Scenario” increases to \$21.9 million. If the development parcels were also independently sold for at least \$15.8 million (an unappraised value that is less than assessed value), the “Do Nothing Scenario” net revenues increase to \$37.7 million. These amounts are higher than both the \$16 million estimated with the project for the first five years on Page 10 and the \$17.6 million amount with Hunden Analysis on Page 11.

Pages 13 to 17 provide Davenport’s analysis for the entire anticipated life of the bonds. In my consulting work for municipalities, I have not used a long-term “Do Nothing” comparison approach and would not do so in this situation. I am not aware of any person or entity that could prevent Richmond’s City Council for the next 30 years from declaring certain city-owned as surplus and selling these for redevelopment. I assume that current and future City Council members would consider reasonable conventional development options for the City’s surplus real estate property.

The Request for Proposal (RFP) Process

Page 19 responds to my presentation slide that pointed out that the development parcels have not yet been declared surplus and actively marketed by the City of Richmond. Davenport responds:

“All potential development areas of the Project were subject to a comprehensive Request for Proposals (“RFP”) that was distributed nationwide on November 9, 2017. The RFP also stated specific social impact development objectives required of the Developer and Project.”

Richmond BizSense reported on the Navy Hill development team plans on September 5, 2017. This was two months before the City of Richmond’s RFP was issued. The article reported that “while the size of the arena is still being determined, sources said it is being eyed for 17,000-18,000 seats.” It also reported that “a new hotel, likely around 400 rooms, is also in play for space behind the Blues Armory and next to the Coliseum.”^{7/}

The City’s November 2017 RFP for potential developers stated:

“The Proposal must include the demolition and replacement, or rehabilitation, of the Richmond Coliseum within the Project Area with, or as, an entertainment venue (the “New Arena”) that enhances the attractiveness and economic development potential of Richmond. The New Arena should be a multi-use facility and should not contemplate an anchor tenant. The New Arena should have approximately 17,500 seats in at least one seating configuration.”^{8/}

It also stated:

“...the Proposal must include a hotel component. The hotel shall include a minimum of 400 rooms and be in close proximity to the Greater Richmond Convention Center.”^{8/}

These mandatory requirements likely restricted potential responses to the RFP, and the only proposal came from the development team described in the September 2017 Richmond BizSense article. The RFP did not require a minimum number of affordable housing units. Instead it stated:

“The Proposal should contain a meaningful housing component that responds to the full diversity of housing needs in Richmond, including residential home ownership. Specifically, the Proposal should outline how the Respondent plans to meet the needs of the full spectrum of Richmond residents with respect to housing.”^{8/}

Impact of New Arenas on Surrounding Development

Page 20 discusses the typical lag time in development surrounding new arenas based on a quantitative examination of 15 arenas.^{9/} My point was to challenge the assertion that new arenas are a major catalyst for surrounding development. Davenport responds by stating that “the arena is being built simultaneously with significant private investment.” I agree that this is the plan for the Navy Hill project. My main question continues to be whether the new arena is clearly needed for all of this simultaneously planned new development to occur. This question is also in the Draft Risk Matrix.

Cannibalization

A likely future topic for a Navy Hill commission meeting is market demand for the non-arena uses planned for the development parcels. That discussion would include potential cannibalization. It is a persistent topic in development evaluations and deserves more detailed attention.

Footnotes

^{1/} John Gerner - "Preliminary Due Diligence Review of Proposed Arena Bond Financing and Introduction of the Commission Financial Model":

http://www.navyhillcommission.org/John_Gerner_Oct_19_Presentation.pdf

^{2/} City Council Ordinance 2019-211 (Navy Hill Development Agreement):

<https://richmondva.legistar.com/View.ashx?M=F&ID=7573673&GUID=F0F96F6F-6BA3-40ED-8A39-0A7AE97EAF19>

^{3/} City Council Resolution 2012-R141-143 (Washington football team training facility):

<https://richmondva.legistar.com/View.ashx?M=F&ID=4174999&GUID=DC886332-9D37-49C9-B516-ECD6CA76C0A7>

^{4/} City Council Resolution 2014-R29-33 (Shockoe Bottom and North Boulevard):

<https://richmondva.legistar.com/View.ashx?M=F&ID=4477160&GUID=B121750E-AD9D-45AB-87A1-000B5B2F6CB8>

^{5/} City of Richmond FY2020-2024 Capital Improvement Plan:

http://www.richmondgov.com/Budget/documents/CapitalImprovementPlans/2020-2024_AdoptedCapitolImprovementPlan.pdf

^{6/} MuniCap Tax Increment Financing Projections - Draft Projection No. 26 Values:

http://www.navyhillcommission.org/Municap-Projection_26_Values.pdf

^{7/} Richmond BizSense - “Lead developers in place for downtown arena project”:

<https://richmondbizsense.com/2017/09/05/lead-developers-place-new-downtown-arena-project/>

^{8/} City of Richmond - Request for Proposals for the North of Broad/Downtown Neighborhood Redevelopment Project:

<http://www.richmondgov.com/PressSecretaryMayor/robocopy/documents/RFP-North-of-Broad-Downtown-Development.pdf>

^{9/} Stephanie F. Gerretsen - “Sport-led Urban Development Strategies: An Analysis of Changes in Built Area, Land Use Patterns, and Assessed Values Around 15 Major League Arenas”:

https://deepblue.lib.umich.edu/bitstream/handle/2027.42/147493/sgerrets_1.pdf?sequence=1&isAllowed=y

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