

Fiscal and Economic Impact Analysis Navy Hill Project

City of Richmond, Virginia



September 3, 2019



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- Davenport has evolved into the leading Financial Advisor in the mid-Atlantic/Southeast region, acting as Financial Advisor on more public and private transactions than any other firm during each of the past several years – we have approximately 500 clients in 15 states.
- Since 1998, Davenport has acted as Financial Advisor on financings totaling over \$64 billion.
- Clients served include the Cities of Charlotte, Pittsburg, Cincinnati, Baltimore, Chatham County (Savannah), Raleigh and in Virginia over two dozen. Amongst these are Alexandria, Lynchburg, Roanoke, Portsmouth, Hampton, Suffolk, Fairfax and Falls Church.
- Davenport’s client is the City of Richmond for which we have served as Financial Advisor for over 20 years. As the City’s financial advisor, we have a fiduciary duty to put the City’s interest before our own.

Information, Assumptions and Methodologies used by Davenport



- The primary sources of the information used in Davenport's analysis include:
 - Financial projections and analyses for the Navy Hill Project (the "Project") provided by the Respondent in the initial proposal and as modified during the course of negotiations;
 - Independent third party review by Hunden Strategic Partners and their Analysis dated October 31, 2018;
 - Analysis performed by City staff; and
 - Analysis performed by Davenport & Company LLC, Financial Advisors to the City of Richmond.



What is the Navy Hill Project?

- Includes \$1.3 billion in private investment for Office, Retail, Commercial, Residential and Hotel.
- Provides a new GRTC bus transit center.
- Provides a new City-owned arena that will be the largest in Virginia.
- Renovates the historic Blues Armory using private funding.
- Provides a new 500+ room hotel to increase tourism.
- Improves walkability resulting from infrastructure and streetscape upgrades.
- Ends the City's annual General Fund subsidy to the operations of the existing Coliseum.
- Helps to attract and retain talent in the City.
- Generates an estimated \$1 billion in surplus general fund revenue to:
 - Support Richmond Public Schools - \$500 million;
 - Invest in public safety, public works, and other core services - \$340 million;
 - Support housing opportunities and homeless services - \$150 million; and
 - Invest in art, history, and culture - \$10 million.
- Creates 12,500 jobs in construction and 9,300 permanent jobs.
- Creates 480 affordable housing units and a pathway to hundreds more.
- Requires \$300+ million in minority business participation.

How is the Navy Hill Project Funded?



- Two Sources will fund the Project, which are as follows:

1. Private Investment (approximately \$900,000,000 programmed to be funded contemporaneously with the New Arena; at completion approximately \$1,300,000,000).

AND

2. Publicly issued Non-Recourse Revenue Bonds (Approximately \$350,000,000) issued by the City of Richmond EDA acting as a conduit issuer only.
 - Non-recourse means that if the incremental revenues to pay debt service on the Revenue Bonds are insufficient, the bond holders cannot require the City to make up any shortfalls.
- The Private Investment funds a New Upscale Convention Center Hotel, Blues Armory Renovation, Residential, Commercial and Office Space.
 - The Publicly-issued Non-Recourse Revenue Bonds fund a New Arena.

How are the Non-Recourse Revenue Bonds Repaid?



- Net New Revenues from the following:
 - The Private Investment (a New Upscale Convention Center Hotel, Blues Armory Renovation, Residential, Commercial and Office Space) will produce significant Net New Tax Revenues.
 - These Net New Tax Revenues include, but are not limited to: Real Estate Tax, Meals Tax, Sales Tax and Lodging Tax.
 - Investment from the Publicly-issued Non-Recourse Revenue Bonds will create the following:
 - A New Arena which generates Admissions Tax, Sales Tax and Meals Tax, etc.
 - Growth in real estate tax revenue and net new parking revenue within the newly created Increment Financing Area in the core of Downtown.
- The Private Investment along with the New Arena funded by the Non-Recourse Revenue Bonds will be located in a newly created Increment Financing Area in the core Downtown Area.

The Financing Structure



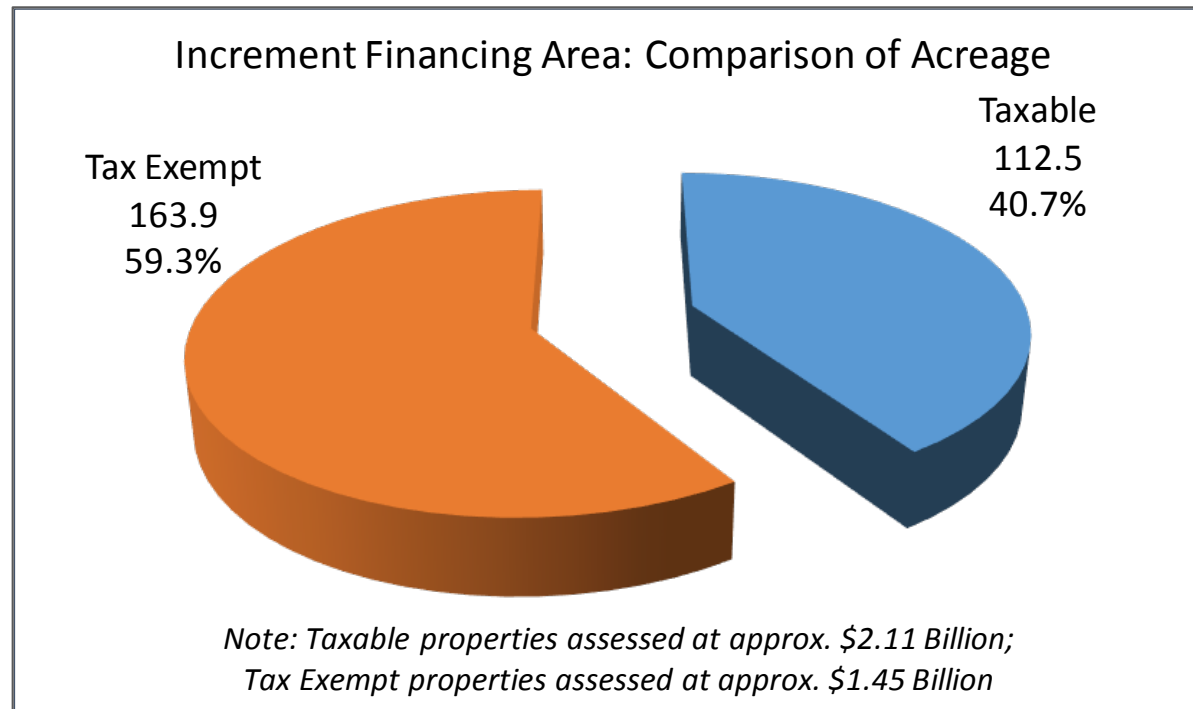
- The proposed Financing Structure for the public improvements (the New Arena) is Publicly-issued Non-Recourse Revenue Bonds issued through the City of Richmond EDA.
 - Non-recourse means that if the incremental revenues to pay debt service on the Non-Recourse Revenue Bonds are insufficient, the bond holders cannot require the City to make up any shortfalls.

- The Non-Recourse Revenue Bonds will be sold to investors, and the proceeds from the sale will build the Arena and fund reserves and costs associated with the bonds.

Tax-Exempt Parcels – Increment Financing Area/Downtown



- The Taxable Real Estate Valuation in the Increment Area approximates 41% of the total acreage in the Increment Area.

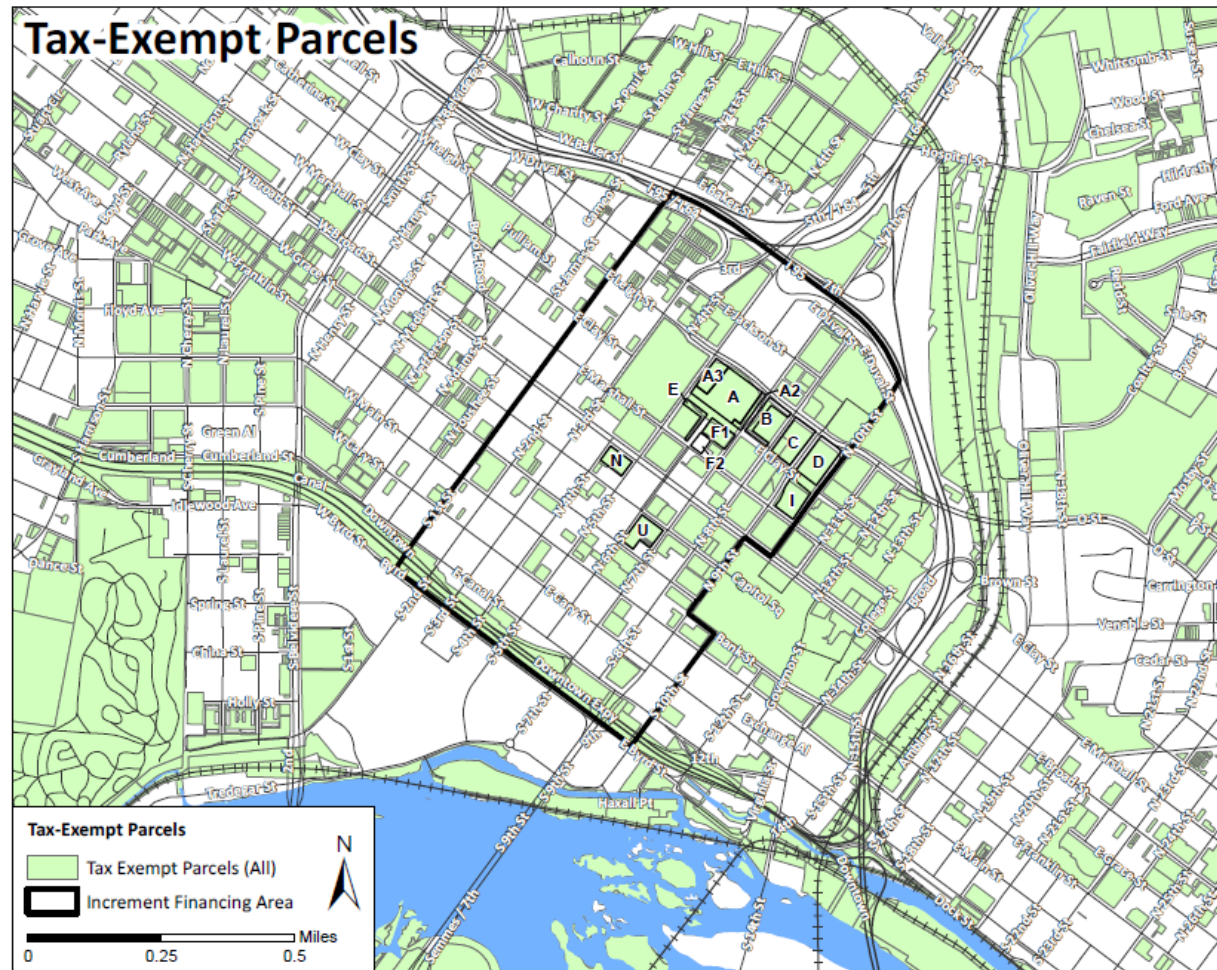


Source: City of Richmond

Tax-Exempt Parcels – Increment Financing Area/Downtown (Cont.)



- Approximately \$1,450,000,000 of Tax-Exempt Real Estate is in the Increment Financing Area.
- Approximately \$1,500,000,000 of additional Tax-Exempt Real Estate is in the area immediately to the East of the Increment Financing Area.



Source: City of Richmond

Increment Financing Area with Development Area



- Increment Financing Area outlined below in red.
- Private Investment (the “Development Area”) further highlighted in Blue within the Increment Financing Area.
- City Incremental Revenue in the Increment Financing Area consists of the following:
 - Incremental real estate taxes; and
 - Limited Net Parking Revenues from parking meters and certain off-street parking facilities.
- No new taxes are proposed.



Development Area



Development Area Highlighted in Blue Below

- City Incremental Revenues in the Development Area (shown highlighted in Blue) consist of the following:
 - Incremental revenue from meal taxes (excluding 1.5% set aside to school investment), retail sales and use taxes, limited lodging taxes, license taxes, and admission taxes; and
 - Sponsorship Revenues.



Source: Developer

Total Revenue Estimates over 30 Years



- Based on the Financial projections and analyses for the Navy Hill Project (the “Project”) provided by the Respondent in the initial proposal and as modified during the course of negotiations and the Hunden Analysis, the proposed project is anticipated to generate the following revenues to the City:

- Conservative estimate of change to Total Revenue Estimates based on Revised Development Plan as of July 2019.

| | As Presented Nov-18 | Current as of Jul-19 ⁽¹⁾ |
|------------------------------------|--|--|
| | Project @ 100% Amount (\$ Millions) | Project @ 100% Amount (\$ Millions) |
| Increment/Project Revenues | \$1,233.0 | \$1,086.0 |
| <u>Hunden Uplift Revenues</u> | <u>459.4</u> | <u>404.6</u> ⁽²⁾ |
| Subtotal Increment/Project Revenue | \$1,692.4 | \$1,490.6 |
| 1.5% Meals Tax to RPS | 34.4 | 28.2 |
| <u>Sale Proceeds from Land</u> | <u>0.0</u> | <u>15.8</u> |
| Total Revenues | \$1,726.8 | \$1,534.6 |

- *Increment/Project Revenues consist of the following 1) incremental real estate taxes in the Increment Financing Area; 2) incremental revenue produced in the Development Area from meal taxes (excluding 1.5% set aside to school investment), retail sales and use taxes, limited lodging taxes, license taxes, and admission taxes; 3) limited Net Parking Revenues from parking meters in the Increment Financing Area and certain off-street parking facilities; and 4) Sponsorship Revenues.*

(1) Changes are a result of revised Project components, exclusion of Block P, and lowered Dominion Tower valuation of \$245 Million per new tower from Developer.

(2) Pro-rata estimate based on 88.1% (\$1,086/\$1,233) of Hunden Uplift calculated by Hunden in its Analysis dated October 31, 2018.

- Except as noted all revenue estimates are from Municap/Developer.

Breakdown of Total Revenue Estimates over 30 Years By Source



| \$Millions | Project Completed and performs as projected |
|---------------------------------------|---|
| Real Estate Tax Revenue | |
| Taxable Project Components | \$281.2 |
| Expanded Increment District | <u>308.4</u> |
| Subtotal Real Estate Tax Revenue | \$589.6 |
| Sales Tax Revenue | 59.3 |
| Meals Tax Revenue (6.0%) | 112.7 |
| Lodging Tax Revenue | 84.8 |
| BPOL Tax Revenue | 12.2 |
| Admissions Tax | 35.4 |
| Arena Revenue(1) | 122.1 |
| Other Revenue(2) | 69.9 |
| Estimated Hunden Uplift(3) | 404.6 |
| Subtotal Increment/Project Revenues | \$1,490.6 |
| Additional 1.5% Meals Tax for Schools | 28.2 |
| Sale Proceeds from Land | 15.8 |
| Total Revenue | <u>\$1,534.6</u> |

(1) Source: Municap/Developer: Comprised of Arena generated tax revenues and sponsorships.

(2) Source: Municap/Developer: Armory generated tax revenues and parking revenue.

(3) Pro-rata estimate based on 88.1% (\$1,086/\$1,233) of Hunden Uplift calculated by Hunden in its Analysis dated October 31, 2018. □

Numbers may not foot due to rounding.

Total Expenses over 30 Years



| \$Millions | Project Completed and performs as projected |
|---------------------------------------|---|
| Less :Total Revenue Bond Debt Service | (\$476.0) |
| Less: Incremental Costs (1) | |
| Public Works | (0.4) |
| Police | (21.0) |
| Fire/Emergency | (41.1) |
| Richmond Public Schools | ** |
| Community Wealth Building | (0.2) |
| Justice Services | (3.9) |
| Finance | (3.6) |
| Economic Development | (1.4) |
| Planning and Development | (2.0) |
| Total Incremental Cost | (\$73.6) |
| Total Expenses | (\$549.6) |

(1) Source: City of Richmond.

** Dependent on number of students attributable to the Project.

Numbers may not foot due to rounding.

Net Impact to the City over 30 Years



| \$Millions | Project Completed and performs as projected |
|--|--|
| Total Revenue | \$1,534.6 |
| Less :Total Revenue Bond Debt Service | (\$476.0) |
| Less: Incremental Costs | (\$73.6) |
| Net Revenue to the City After Debt Service/Incremental Costs | \$984.9 |

Numbers may not foot due to rounding.

Davenport Sensitivity Analysis- Projected Revenue and Expenditure Estimates over 30 Years



| | <u>Scenario 1</u> | <u>Scenario 2</u> | <u>Scenario 3</u> | <u>Scenario 4</u> |
|--|---------------------------|---|--|--|
| | No Project (Base Case) | Project Completed and performs as projected | Project performs at two-thirds (i.e. 67%) of projections | Project performs at Breakeven (i.e. 46%) of projections |
| \$Millions | | | | |
| Real Estate Tax Revenue | | | | |
| Taxable Project Components | \$0.0 | \$281.2 | \$188.4 | \$127.9 |
| Expanded Increment District | <u>308.4</u> | <u>308.4</u> | <u>308.4</u> | <u>308.4</u> |
| Subtotal Real Estate Tax Revenue | \$308.4 | \$589.6 | \$496.8 | \$436.4 |
| Sales Tax Revenue | 0.0 | 59.3 | 39.8 | 27.0 |
| Meals Tax Revenue (6.0%) | 0.0 | 112.7 | 75.5 | 51.3 |
| Lodging Tax Revenue | 0.0 | 84.8 | 56.8 | 38.6 |
| BPOL Tax Revenue | 0.0 | 12.2 | 8.1 | 5.5 |
| Admissions Tax | 0.0 | 35.4 | 35.4 | 35.4 |
| Arena Revenue(1) | 0.0 | 122.1 | 70.1 | 36.3 |
| Other Revenue(2) | 0.0 | 69.9 | 46.8 | 31.8 |
| Estimated Hunden Uplift(3) | 0.0 | 404.6 | 271.1 | 184.1 |
| Subtotal Increment/Project Revenues | \$308.4 | \$1,490.6 | \$1,100.5 | \$846.3 |
| Additional 1.5% Meals Tax for Schools | 0.0 | 28.2 | 18.9 | 12.8 |
| Sale Proceeds from Land | 0.0 | 15.8 | 15.8 | 15.8 |
| Total Revenue | \$308.4 | \$1,534.6 | \$1,135.2 | \$874.9 |
| Less :Total Revenue Bond Debt Service | 0.0 | (476.0) | (530.6) | (566.1) |
| Surplus (Net Revenue to the City after Debt Service) | \$308.4 | \$1,058.5 | \$604.5 | \$308.8 |

(1) Source: Municap/Developer: Comprised of Arena generated tax revenues and sponsorships.

(2) Source: Municap/Developer: Armory generated tax revenues and parking revenue.

(3) Pro-rata estimate based on 88.1% (\$1,086/\$1,233) of Hunden Uplift calculated by Hunden in its Analysis dated October 31, 2018.□

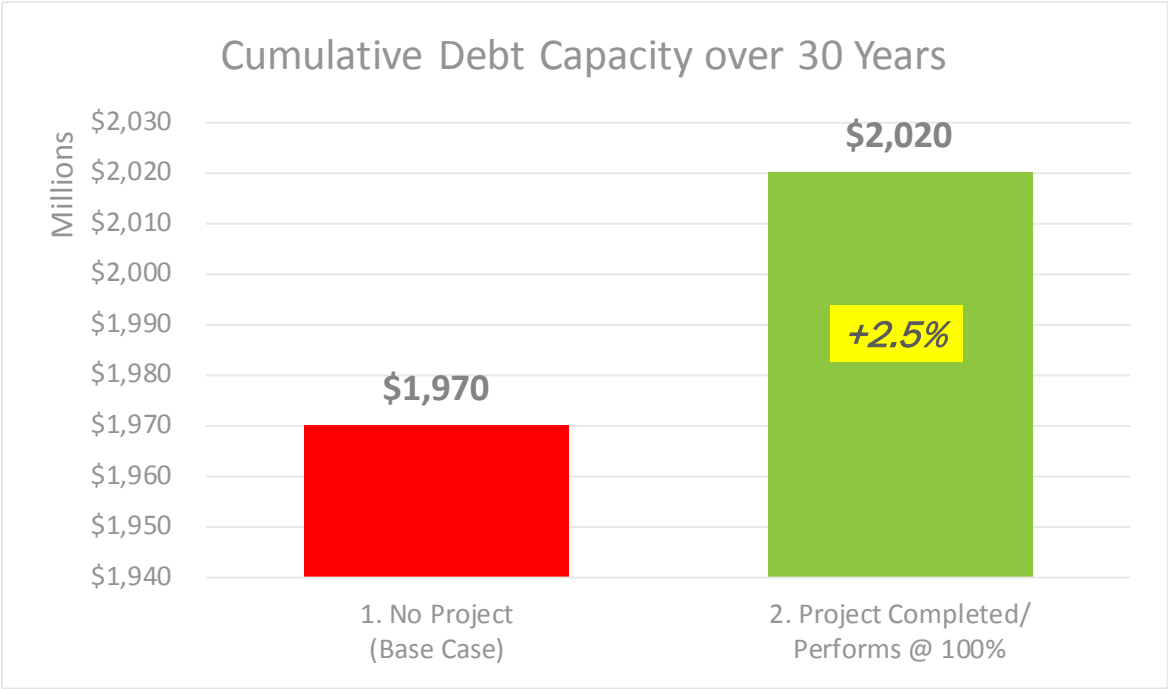
- Except as noted all revenue estimates are from Municap/Developer.

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Davenport Analysis of Impact on Cumulative Debt Capacity



- The graph shows the impact of the Project on the City’s Cumulative Debt Capacity over 30 Years under the following Scenarios:



Based on City’s 10% Debt Service vs. Budget Policy and 2% Growth assumption.

- Cumulative Debt Capacity over 30 Years represents the amount of debt that can be borrowed by the City over the projected time frame of 30 years and still be in compliance with all City Debt Management Policies.

Davenport Analysis of Impact on Cumulative Debt Capacity (cont.)



■ Key Observations:

- The City has approximately \$1,970,000,000 of Cumulative Debt Capacity over the 30 year time frame with no Project Base Case (Scenario 1).
- If the Project's total \$1,300,000,000 Private Investment is completed as proposed and performs as projected, then the City's Cumulative Debt Capacity is estimated to increase by \$50,000,000 (or 2.5%) over 30 years (Scenario 2).
- If the Project performs at 46% of projections, then there will be no impact City's Cumulative Debt Capacity over 30 years (Scenario 4).
- If the Project performs at 33% of projections, then the City's Cumulative Debt Capacity will be reduced by \$30,000,000 (or 1.5%) over 30 years.

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