

# Richmond City Council

## City of Richmond, Virginia

JON BALILES  
CITY COUNCIL REPRESENTATIVE  
FIRST DISTRICT

December 6, 2013

The Honorable Dwight C. Jones, Mayor  
City of Richmond  
900 E. Broad Street, 2nd floor  
Richmond, VA 23219

Dear Mr. Mayor;

Thank you for the Shockoe Bottom Ballpark proposal delivered on November 11. It is intriguing and has the potential to be far-reaching. I subscribe to the focus on economic development, job creation, historic preservation and tourism, while enhancing the City's economic revenue base, all of which are needed to continue Richmond's upward trajectory. I think that the inclusion of the historical Lumpkin's Jail site is especially poignant. The story about Richmond and our nation's slave history that must be told, shared, and financed with public and private funds.

The goals of the stadium project are certainly laudable, but I am troubled by what appears to be the lack of supporting information and the absence of financial safeguards in the proposal. Let me explain: I have outlined below my major concerns with the expression of support Resolution (2013-R255). I fully understand that such approval would allow the Administration to negotiate terms of the deal with the Economic Development Authority (EDA) and others without any subsequent Council approval or review, which is why I believe it is important to express concerns now after reviewing the proposal in detail. I remain committed to helping find the best solution that can help us work through the challenges before our City.

**First**, the Shockoe Stadium proposal (Option B) calls for a 30-year, \$1.7 million annual rent from the Flying Squirrels baseball team, which is contingent upon the team signing a long-term contract with VCU Baseball. If VCU builds its own stadium or for any reason leaves before the expiration of the contract, what will be the status of the contract? Would the Flying Squirrels still be liable for the full \$1.7 million in rental payments or would the City? If the City, why would the City be responsible for the shortfall?

**Second**, I am concerned about the use of general obligation bonds to finance this proposal. Given our limited debt capacity, using these types of bonds will only limit our ability to fund the many needs for our schools and other infrastructure improvements throughout our City in the years ahead.

I would think that revenue bonds are a sounder fiscal strategy since a bank typically evaluates the project, sells the bonds to investors, takes on the risk of default, which does not add to the City's

debt. In the past, the EDA (then called the Industrial Development Authority) previously required an irrevocable direct-pay letter of credit from an established bank before providing funding for major development projects through revenue bonds. Why shouldn't we do the same here to better protect the City?

**Third**, the Shockoe Stadium proposal does not address certain operational and maintenance questions in any meaningful way. For example, Page 4 of the Shockoe Stadium proposal proposes that the EDA would enter into a stadium management agreement with a service provider. At a public meeting on December 5th the Administration said that the Flying Squirrels would be responsible for the maintenance and upkeep. Would that be part of their \$1.7 million lease terms or would they have to fund the maintenance separately? There is little information regarding projected operating or maintenance costs over the long term, nor is it clear who would be responsible for funding them.

I understand this item should be addressed in the negotiations should Council authorize them, but it is important to remember the City originally agreed to put the Richmond Metropolitan Authority (RMA) in charge of the Diamond 40 years ago for operations and maintenance, and that facility was not well-maintained. The City and counties were often called on to supply more money to maintain it. We should not repeat this costly example.

### **LESSONS FROM 6th STREET**

Richmond has been down this 6th Street before, but it's not the one most remember. In 2002, City Council created the Broad Street Community Development Authority (CDA) to tear down 6th Street Marketplace, improve the streetscape and infrastructure, and take over three parking decks and two surface parking lots upon which decks were supposed to have been built. The \$93 million bond issuance failed to sell and was then reduced to \$66 million.

The result of the lesser bond issuance resulted in two parallel problems: the financial inability to build the two decks and renovate a third – and without those added parking spaces, the CDA could not earn enough to cover the nearly \$6 million of annual debt service. The City and City Council nevertheless assented rather than face the financial reality of a sinking ship. The City still made a “moral obligation” to cover up to \$3 million annually if needed (but was not legally binding) that then allowed the sale of bonds to proceed even though the bonds weren't rated and a professional bond publication called the proposal “incredibly complex.” The City then, as it is today, was assured that the “revenue estimates were conservative” but turned out to be grossly inaccurate.

The City has paid millions of dollars to cover the shortfalls it was promised would never occur on bonds the City did not even issue. In 2004, for example, the City paid \$250,000 to cover the shortfall; in 2005 the bill was \$650,000; in 2009, the cost had ballooned to \$1.8 million. The City finally dissolved the CDA in 2010 and took the property back but the damage was done, except to the investors.

While the CDA example and the Shockoe Stadium proposal are not an “apples to apples” comparison in the issuances of bonds, it is the difference between an orange and tangerine - not the same fruit but from the same family. I am concerned about the absence of financial and operational protections.

**Fourth**, in the Shockoe Stadium proposal there is a question regarding the parking deck north of Broad Street. We have seen presentation slides that show a 1,200+ space deck, but the latest Davenport report assumes that there would be 1,745 parking spaces. According to the resolution the agreement between the deck owner and the Squirrels is to be worked out at a later time. Shouldn't we know how many parking spaces would be required and available for the ballpark before we agree to build it, especially given the proposal for a grocery store, a 100+ room hotel, and 550 apartments that would all share this parking deck?

Another related question: is there a written agreement concerning the nearby state-owned parking deck at 15th and E. Franklin Street with 1,450 spaces? A senior member of the City Administration is reported to have said at a community association meeting on November 20 that an agreement with the state to use that deck "had not been penned." The status of availability of both decks is essential to providing the bulk of the parking for stadium-goers.

**Fifth**, the Shockoe Stadium proposal does not seem to include a master developer. In a prior 2008 Shockoe proposal, there was one master developer using the same parcels but it is my understanding that the current plan is to be executed by a team of developers. According to the plan before Council, there would be two developers (Highwoods and the newly created Stadium North I LLC) for north of Broad Street, and another developer (the newly created Stadium South I LLC) for south of Broad. It is not clear who would be responsible for any cost overruns and managing agreements for parking.

Since the agreement with the EDA allows direct negotiation with a developer rather than a publicized competitive development process, it would be helpful to receive more information and assurances about the fiscal ability of the development partners to complete such a large scale project. Additionally, the proposal needs to better define the roles and responsibilities between private development and the City. Shouldn't the City ensure that it is not vulnerable for cost overruns for a new ballpark or under obligation to cover shortfalls for other development in the area *before* we sign off on any agreement?

**Sixth**, the Shockoe Stadium proposal (as noted on page 5 of City Council Resolution 2013-R255) instructs the EDA to negotiate with the private development team for \$20.25 million in Shockoe Bottom office development along with other uses. The appendix table in the latest Davenport report has \$0 for Shockoe Bottom office development. Which is correct? It seems the resolution is based on an earlier version of the Shockoe Bottom plan that had 150,000 square feet of office space. How does the inclusion or omission of the office space affect the economic impact numbers and parking availability in the area north of Broad Street?

**Lastly**, in such complex financial transactions, communication and transparency are essential in earning the public's trust. It would thus be helpful to Council and the public if the City would release information regarding those individuals and organizations, companies, LLCs (with all members listed), and the like who are involved with this proposal's development.

I believe it is the Council's responsibility to review this ambitious proposal and ensure it provides needed economic growth while protecting our financial ability to borrow and meet current and future needs. The goal to maximize the possible economic impact is one I share but should be balanced against the risk. For me, however, there are simply more questions than answers, and thus it makes it difficult, if not impossible, for me to lend my support to this proposal.

I applaud the commitment of the Administration to hold special public hearings in addition to the meetings at Council as well as meetings in our respective districts and am confident that they will help better inform Council with the necessary information to make this a better proposal before a decision is made. I look forward to working with my colleagues, your staff, and others to make sure we keep Richmond safe for baseball and safe at the bank.

Sincerely,

Jonathan T. Baliles

cc:

Byron Marshall  
Suzette Denslow

P.S. – I have included some additional thoughts and alternative scenarios that might be worth exploring at meetings with the public as this process moves forward. While this proposal was described as “all or nothing” according to the Times-Dispatch on November 17, I sincerely believe that collaboration is the key to making our City achieve all of our many needs. I have found that progress is often achieved with people working together and sharing ideas and experiences and making good ideas better. I know we can find solutions to complex issues that will increase economic vitality, create jobs, and improve our schools and infrastructure while also making this the best City in which to live.

## **ALTERNATIVE SCENARIO CONSIDERATIONS**

The “Option B” spreadsheet from the November 8 Davenport report (attached) includes a Shockoe Stadium proposal that shows all 61 acres at the Boulevard site being developed. It estimates it could contain 1,048 apartments, a 288 room hotel, 36,000 square feet of convention space, 332,000 square feet of national/regional retail, 442,000 square feet of retail and entertainment space, 960,000 square feet of office space, 175,000 of medical office space, 264,000 square feet of health/fitness space, and a parking garage (or several) with 10,600 spaces. It would have an estimated assessed value between \$654 million and \$721 million (with \$137 million of value from the parking decks).

The “Option A” spreadsheet (attached) includes a Boulevard Stadium proposal with 29 acres assigned to a stadium (including a presumed parking lot). The “31 acres” of development estimates the inclusion of 972 apartments, a 288 room hotel, 36,000 square feet of convention space, 332,000 square feet of national/regional retail, 219,000 square feet of retail and entertainment space, and a 5,900 space parking deck with an assessed value between \$353 million and \$403 million (with \$76 million of value from the parking decks).

Looked at on a per unit (or per acre) basis through the Davenport report, the Boulevard Stadium proposal will produce at least \$11.4 million of economic impact per acre while the Shockoe Stadium proposal shows the Boulevard acreage at an average of at least \$10.7 million per acre.

And thus, two questions emerge. Would a fully developed 61 acre Boulevard site need more than 10,000 parking spaces that will cost a developer \$137 million to build as postulated in the Davenport report? For context, there are approximately 24,000 spaces in all of Downtown Richmond. Second, if you allocated nine acres for a stadium at the Boulevard (the current size of The Diamond), you could use the remaining 20 acres set forth in the Boulevard Stadium proposal for other mixed use development in addition to the “31 acres” proposed, raising the total developable area to 51 acres that could include parking to serve the stadium and surrounding development.

If 20 of the 29 acres slated for the Boulevard Stadium proposal were developed to serve both the mixed use development and the ballpark using Davenport’s estimates of \$11.4 million per acre, it appears you could potentially generate at least \$228 million of additional development. It is conceivable that a Boulevard Stadium proposal on nine acres with 51 acres of mixed use development could generate at least \$579 million of economic impact and as much as \$660 million.

If office space and additional apartments were included at the Boulevard Stadium proposal as it is in the Shockoe Stadium proposal, you could have a parking deck that served the business world during the day and sports fans, shoppers, and residents in the evening. The northern portion of the Boulevard site could be more focused on mixed use and retail and other uses with other parking to accommodate that development.

Meanwhile, the Davenport analysis shows Shockoe without a stadium could generate \$44 million in economic activity with a grocery store, 300 apartments, and a 700 space parking deck. It is also conceivable that, given the recent growth in residential demand in Shockoe in recent years that more apartments are feasible. While the use of the stadium concourse is an ingenious and creative solution to FEMA floodplain requirements for the portion of the parcel that is in the floodplain, other solutions could be equally so with additional creative thought and collaboration.

According to the Davenport spreadsheet, a grocery store, 750 apartments noted in the Shockoe Stadium plan, and a 1,200 space parking deck could generate \$97 million of economic impact in Shockoe. It seems as though the gap between the two plans could be closed, if not bridged. When you factor in the elimination of the City's cost to purchase the land with the reduction (but not elimination) of needed infrastructure work in Shockoe, they grow closer still.

Davenport's disclaimer mentions that the estimated tax revenues in their report are *"based on the development assumptions and other key assumptions as provided to Davenport. Davenport has not reviewed such assumptions for market reasonableness [emphasis mine] or the need for phasing or absorption"*. Do we know if such a scenario such as the one above or others was or could be provided to Davenport and considered?

Another example that offers an intriguing lesson can be found right up the road in Fredericksburg. They endured their own stadium debate earlier this year that was initially met with concerns about general obligation bond financing for the baseball stadium and the impact on their City's debt capacity and ability to finance basic needs.

When asked by the citizens to find a better solution, the Council went back to the drawing board with the team and blazed a pioneering solution to finance the stadium with private dollars and it is incentivized for the team based on the performance of the stadium and surrounding development.

Most interestingly, a special Tourism Zone was created as permitted by state law that allows a City to offer incentives for investment and job creation. Such a zone could conceivably be created on the 51 acres of developable land at the Boulevard site that could be used to incentivize private financing of a ballpark and surrounding mixed use development and public funding of infrastructure improvements. Businesses do not need to be "touristy" and can include grocers, restaurants, lodging, general retail, health related, sports merchandise, and merchandising and gift shops.

In another sage step to further protect the City, the Fredericksburg Council also offered conditional approval to a draft performance agreement "subject to the completion of all prerequisites to the mutual satisfaction of the City Council, the EDA and the baseball team." That would seem to be a good example for Richmond to emulate however this process moves forward.

For a combination scenario of the two options listed above, you can look at Trustmark Park in Pearl, Mississippi with a capacity of 7,319. That stadium was built in 2005 as a part of a larger tract of development in which the developer privately financed the stadium and the development using urban renewal revenue bonds while the City of Pearl paid for the land. The developer was also (like Fredericksburg) eligible to receive rebates from that state's Tourism Incentive Program which helped attain private financing.

In both scenarios, the municipalities took a second look at other options after realizing the first option is not always the best one. The desire on everyone's part to find an alternative plan led to better solutions for the teams, municipalities and the taxpayers. I hope these and other examples might be part of our discussion in the months ahead.