KINCORA

The Crossroads of Commerce and Knowledge

May 28, 2010

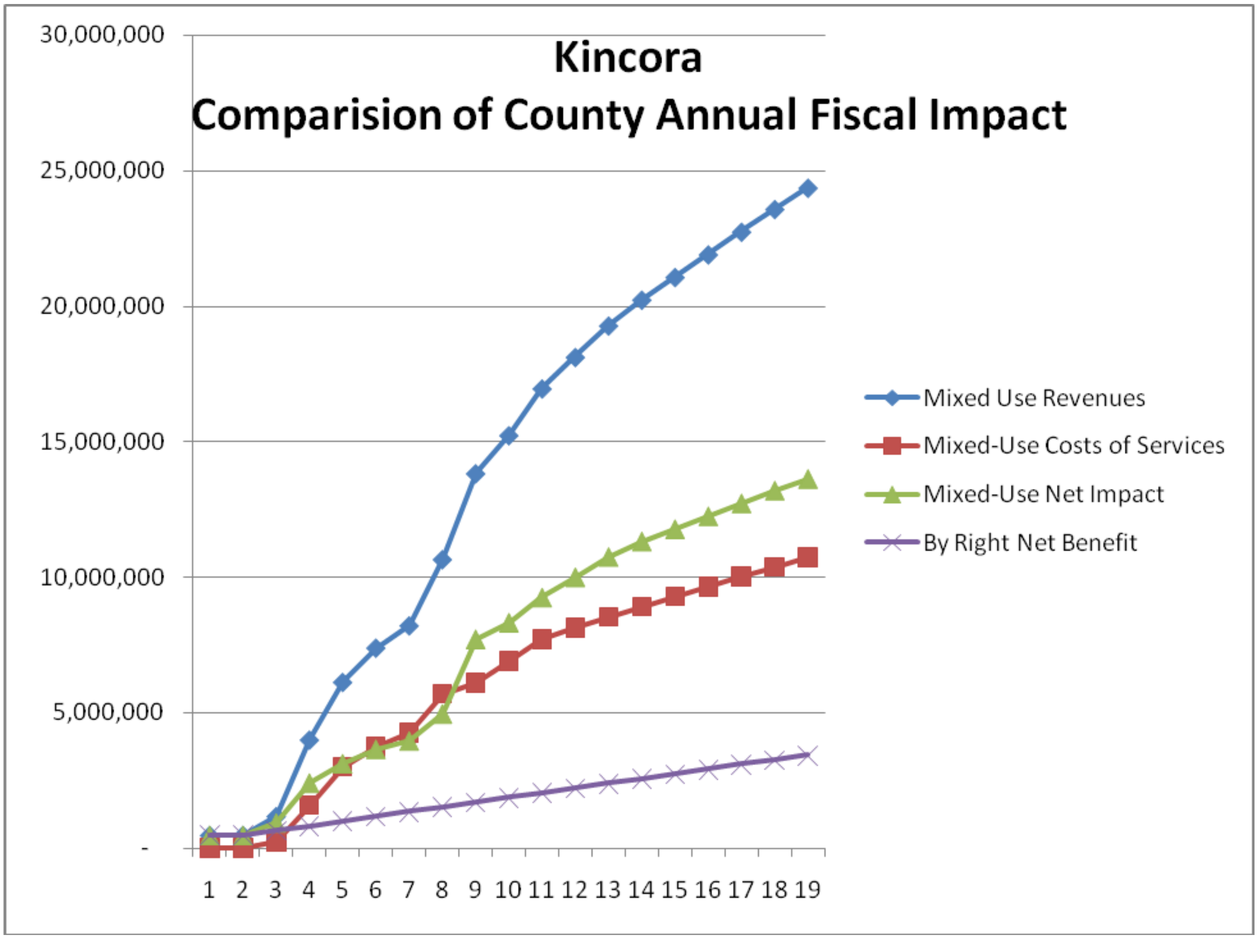
Proposal to Accelerate Construction of Gloucester Parkway Bridge

In the Board's Committee of the Whole meeting on May 18, certain questions came up with respect to the fiscal impacts of the Kincora project and the delivery of the Gloucester Parkway bridge with traditional proffered transportation phasing, as opposed to a Community Development Authority ("CDA") financing.

With regard to fiscal impacts, Supervisor Burton previously had raised concerns with the assumed household income levels of condominium owners at Kincora. He also asked us to demonstrate when the break-even crossover point for fiscal impacts occurs for our mixed-use plan in contrast to by-right development.

Background on and Changes to Fiscal Impact Reports. In our first re-zoning application, we produced a Fiscal Impact Report dated 3-1-2007 prepared by John Petersen, George Mason Professor of Public Policy and Finance (the "2007 Report"). It contrasted the tax impacts of our proposed mixed –use development with those of a "by-right" development if the property were to build out under the existing zoning in the historical flex/industrial pattern of the Route 28 Corridor in Loudoun County. The 2007 Report depicted a 15 year build-out of the property, which was the only point County Staff took issue with. Accordingly, as we returned for the recent special exception and the current rezoning applications, we made the suggested changes to the absorption schedule in a Fiscal Impact Analysis dated September 28, 2008 by the same author (the "2008 Report"). As suggested by the County Finance Staff, we extended the build-out period to 19 years and added the impact of the proposed ballpark, but in all other respects, the reports were quite consistent in showing a dramatic positive tax impact for the mixed-use alternative. That 2008 Report was updated by John Petersen in a letter dated October 22, 2009 which affirmed the major assumptions of the prior report.

Supervisor Burton questioned the assumptions in the 2008 Report as they relate to the assumed price of condominiums at Kincora and the annual household Income of their owners. In addition, due to changes in the densities and mix of the project (for instance, one hotel was eliminated during the Planning Commission review) we thought it was important to update the tax impact picture taking Supervisor Burton's concerns into account as well as the shifts in proposed mix of uses as a result of the revisions made with the Planning Commission. Accordingly, we have reduced the value of the proposed condominiums by 25%, bringing the assumed annual household income down to $110K from the $150K figure Mr. Burton questioned. Even with these changes, the resulting analysis continues to paint an overwhelmingly positive fiscal impact picture for higher value, denser, mixed-use development, as depicted in the following graph.



The foregoing impacts do not include the value of taxes generated by construction activities or the value of proffers public improvements built by Kincora which are significant in their own right.

The crossover break-even point for the County is immediate because (1) currently the only tax revenues are on vacant PD-IP-zoned land, (2) the multifamily units generate relatively few students and are phased throughout the build-out of the project, and (3) all of the proposed land uses will contribute more to the County tax base than the flex/industrial base line.

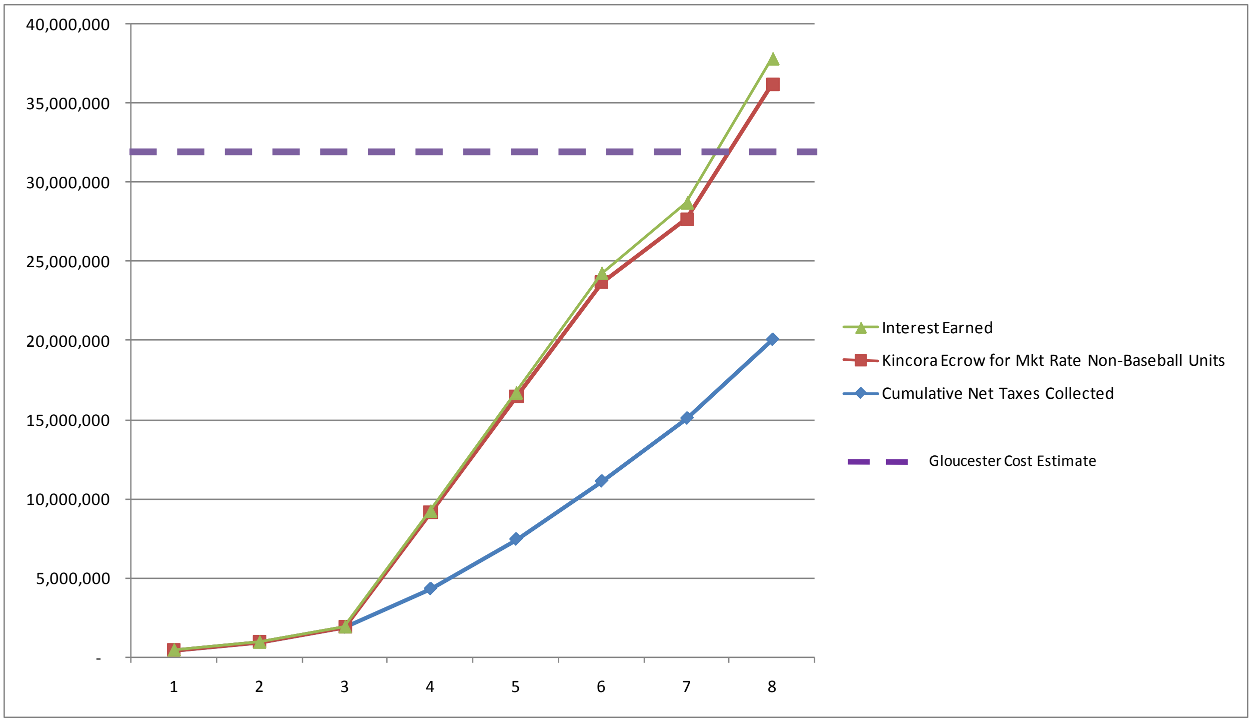
Opportunity for Gloucester Bridges. The overwhelmingly positive fiscal impacts of our proposed mixed-use development create an opportunity to address the concern articulated at the Committee of the Whole meeting that, if the CDA is not ultimately approved and CDA bonds issued for Kincora's regional road network, Kincora's transportation phasing plan may not deliver this desperately needed Gloucester Parkway bridge for a decade or more.

Our proffered transportation phasing plan, without the CDA, will deliver the two key Broad Run crossings when needed to support the traffic generated by Kincora, making the Pacific-Russell Branch bridge the earlier priority in the sequence. This is consistent with the phased approach to road improvements taken in other approved rezoning applications.

However, we also share the County's desire for the regional benefits that will be brought by the construction of the $32 million Gloucester Parkway bridge. Our preference is to build it, without cost to the taxpayers, through our proposed CDA. However, in response to the Supervisors' concerns, we have developed a proposal that will enable the County to accelerate construction of the Gloucester Parkway bridge should the CDA not move forward in a timely fashion.

Currently, as vacant land, Kincora generates a modest level of tax revenue for the County. This picture will change dramatically as we move forward on mixed-use development as reflected in the chart above. In the event a CDA is not approved, those additional tax revenues could be combined with the equivalent of a per unit capital facilities payment ($23,758 per unit) by Kincora for its market rate, non-ballpark units to finance construction of Gloucester Parkway much sooner than would be accomplished with a traditional phasing approach. Kincora would proffer that if the County has not created a CDA within one (1) year of the approval of the rezoning and bonds not issued within three (3) years, Kincora will escrow with the County a capital facility charge per unit, as units are built, to be held by the County to pay for the Gloucester Parkway bridge. With those cash payments from Kincora, and the additional tax revenue collected by the County from the Kincora mixed-use development, the County will have sufficient funds to construct the Gloucester Parkway bridge within eight years of the approval of this rezoning, without using a CDA. This solution still leaves Kincora responsible for well more than its 30% share of the Gloucester Parkway bridge traffic at full build-out. In addition, Kincora would remain 100% responsible for the extension of Pacific Boulevard across Broad Run to Russell Branch Parkway.

The following chart depicts the cumulative revenue available to implement this option for construction of the Gloucester Parkway bridge.



The cumulative net taxes in the above chart do not include taxes generated by construction activity and are stated in constant 2008 dollars (consistent with the 2008 Report). This solution combines cash payments from the Applicant with the positive tax benefits of the development to enable the County to accelerate construction of Gloucester Parkway should the CDA not move forward and the County decides not to wait for construction under the traditional rezoning phasing proffers. At such time as construction of Gloucester Parkway bridge proceeds - whether by CDA, with County participation or under the traditional rezoning phasing - the accumulated capital facility payments from Kincora, with any accumulated interest, would be used to construct the bridge.

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