

Our Mission: To provide a supplemental financial mechanism for the revitalization of Crystal City, Potomac Yard, and Pentagon City streets, transit, and public open spaces

Crystal City, Potomac Yard, and Pentagon City serve as Arlington's largest commercial office, retail, and hotel district and include over 13,000 housing units. This area represents 16 percent of the County's total assessed property value. The commercial building stock in this area is aging with some of it dating back to the 1960s. Additionally, the continued relocation of government offices due to Base Realignment and Closure Commission (BRAC) and changes in federal government leasing trends has affected vacancy levels in the area (the commercial vacancy rate in Crystal City was 20 percent at the end of the third quarter of 2016).

The Crystal City Sector Plan establishes a vision for supporting the revitalization of this important district, which will enable the area to continue to thrive. The Plan envisions significant public infrastructure improvements in streets, transit, and public open spaces to support construction and reconstruction of office, retail, and residential spaces in Crystal City. The near-term infrastructure improvements include realignment of streets and intersections. Longer term improvements include a second entrance to the Crystal City Metrorail station, enhanced surface transit, and open space including a park and an urban plaza. The essential infrastructure needs in the adjacent areas of Potomac Yard and Pentagon City are captured in the Phased Development Site Plans (PDSPs) for these areas.

In October 2010, the Arlington County Board established a tax increment financing area in support of the Crystal City Sector Plan and infrastructure that will also support Potomac Yard and Pentagon City.

Tax increment financing (TIF) is a mechanism used to support development and redevelopment by capturing the projected increase in property tax revenues in the area and investing those funds in improvements in that area. Unlike a special district, it is not an additional or new tax; rather, it redirects and segregates the increased property tax revenues that would normally flow to the General Fund so that it can be used for a specified purpose. The amount of the tax increment revenue is determined by setting a baseline assessed value of all property in the area on January 1, 2011, tracking the incremental increase in assessed values relative to the base year in each subsequent year, and segregating the incremental value in a separate fund. During the establishment of the TIF, the Board approved allocating 33 percent of the incremental revenues to the Crystal City, Potomac Yard, and Pentagon City TIF area. The County Board policy that established the TIF requires the County Manager to revisit the TIF percent each budget cycle and at other key milestones during the infrastructure planning process.

During FY 2018 budget development, the CY 2017 assessment growth together with the latest multi-year revenue forecast projections were compared to growth projections in the FY 2017 – FY 2026 Capital Improvement Plan (CIP). The assessment growth realized in CY 2017 and the near-term projection of revenue growth were greater than the CIP growth forecast; this assessment and revenue growth at a 30 percent TIF increment were also equal to or greater than the CIP forecast.

The FY 2018 Proposed Budget recommends reducing the TIF increment from 33 percent to 30 percent which will still provide the funding stream necessary to deliver the CIP commitments in the TIF area. At the same time, reducing the TIF allocation allows for the reallocation of local tax funding so that they can be used to fund School needs and be applied to other School aged program recommendations in the Proposed Budget (see County Manager Message). The Crystal City, Potomac Yard, and Pentagon City TIF revenues reflect the TIF allocation at 30 percent.

SIGNIFICANT BUDGET CHANGES

The FY 2018 proposed expenditure budget for the Crystal City, Potomac Yard, and Pentagon City Tax Increment Financing Area is \$6,304,880, based on current year revenues. This is a 31 percent increase from the FY 2017 adopted budget. The complete spend down plan reflects utilization of current year revenues as well as fund balance as capital projects are rarely completed in a single year and require carryover of funds to be fully executed. The complete FY 2018 execution plan compared to the revised FY 2017 plan is shown in the fund statement. The FY 2018 budget reflects:

- ↑ Revenues increase based on the increase in real estate assessments in CY 2017 compared to CY 2016, offset by a reduction in the TIF increment from 33 percent to 30 percent.
- ↓ FTEs decrease by 1.0 FTE to reflect the transfer of a position in the Real Estate Bureau to the Transportation Capital Fund.

PROGRAM FINANCIAL SUMMARY

	FY 2016 Actual	FY 2017 Adopted	FY 2018 Proposed	% Change '17 to '18
Capital Projects	\$1,243,068	\$3,952,420	\$5,644,880	43%
Interest on Debt	-	-	-	-
Capital Projects Contingency	-	860,000	660,000	-23%
Total Expenditures	1,243,068	4,812,420	6,304,880	31%
Total Revenues	4,196,224	4,812,420	6,304,880	31%
Utilization of Fund Balance	(\$2,953,156)	\$0	\$0	-
Permanent FTEs	7.50	7.50	6.50	
Temporary FTEs	-	-	-	
Total Authorized FTEs	7.50	7.50	6.50	

There are a total of 28.5 FTEs to support the transportation capital program of which 22.0 FTEs are funded by Transportation Capital Fund and 6.5 FTEs are funded by Crystal City Tax Increment Fund (TIF). Of the total Crystal City TIF FTEs, 3.0 FTEs were approved at FY 2014 adoption, 4.5 FTEs were approved at FY 2013 closeout, and 1.0 FTE was moved to TCF in the FY 2018 Budget.

- The baseline CY 2011 real estate assessment tax base for the TIF is \$9.8 billion.
- Revenue will be used to supplement other funding sources, examples of which include grant funds, commercial real estate revenue, and bonds.
- This table reflects the FY 2018 spending plan of current year revenues and does not show the use of fund balance for the total projected FY 2018 expenditures. See the Fund Statement for the execution plan.

FY 2018 MAJOR PROJECTS

A significant portion of the TIF funds will be used for the Crystal City Streets program, which is charged with the implementation of the board-adopted Crystal City Sector Plan. The goals of the Streets program are to re-connect the Crystal City street grid, allow for increased accessibility and mobility by all forms of travel, and create opportunities for new development. This work program also includes a significant amount of utility relocation and utility upgrades in support of plan implementation. Specific projects are as follows:

- The South Clark Street Demolition Project will remove the redundant elevated portion of South Clark Street in order to bring the roadway back to the street grade. This will allow for new development parcels to be created that will front on Route 1, furthering the goal in the Sector Plan to activate Route 1.
- The 15th Street Extension project will further enhance the Crystal City street grid by connecting South Clark Street to 15th Street South at the existing South Bell Street approach, creating a standard 4-way intersection. This replaces the existing 14th Road South routing for traffic on South Clark Street. The 15th Street Extension project will also shift the alignment of 15th Street South in order to create a space for the new garden park as called for in the Crystal City Sector Plan. This park is not part of the road project and will be executed by the County's Department of Parks and Recreation in coordination with transportation staff in the Department of Environmental Services. An off-road 2-way bike path along Clark Street is also part of this project, connecting Army/Navy Drive to the Crystal City Metro escalator.
- Route 233 Viaduct Trail Access to National Airport will add a pedestrian connection that is not currently available from the Aurora Highlands Neighborhood and the hotels on Route 1 to National Airport. It will improve the sidewalk along the viaduct and replace the pedestrian connection to Crystal Drive once the current vehicle ramp to Crystal Drive is removed.
- Phase 4 of the Crystal Drive 2-way project, from 26th Street South to 27th Street South, will complete the connected street grid to allow better access to businesses and residences, as well as improve the traffic flow.
- Project development work for the extension of the Crystal City Potomac Yard Transitway to Pentagon City is scheduled to begin in spring of CY 2017. Work will involve conceptual planning, environmental assessment, and preliminary engineering. The Transitway will serve local travel demand within the corridor as well as enhance connections to Metrorail and improve connections to Columbia Pike. The project will provide needed transportation capacity to support the anticipated infill residential and office development in Crystal City and Pentagon City, particularly PenPlace, Pentagon Centre, and Metropolitan Park.
- Preliminary engineering for a multi-purpose project on 23rd Street South from Crystal Drive to South Eads Street. The project will include removal of the median between Route 1 and Crystal Drive, shifting of the westbound lanes to the former median location, sidewalk improvements, new on-street bike lanes, intersection and signal improvements at Clark/Route 1/Eads, pedestrian crossing improvements at Route 1, removal of the underground pedestrian tunnel and associated infrastructure, and sidewalk improvements at Eads and 23rd. This complex project will have extensive public outreach and coordination with adjacent properties.

**CRYSTAL CITY, POTOMAC YARD,
AND PENTAGON CITY TAX INCREMENT FINANCING AREA
FUND STATEMENT**

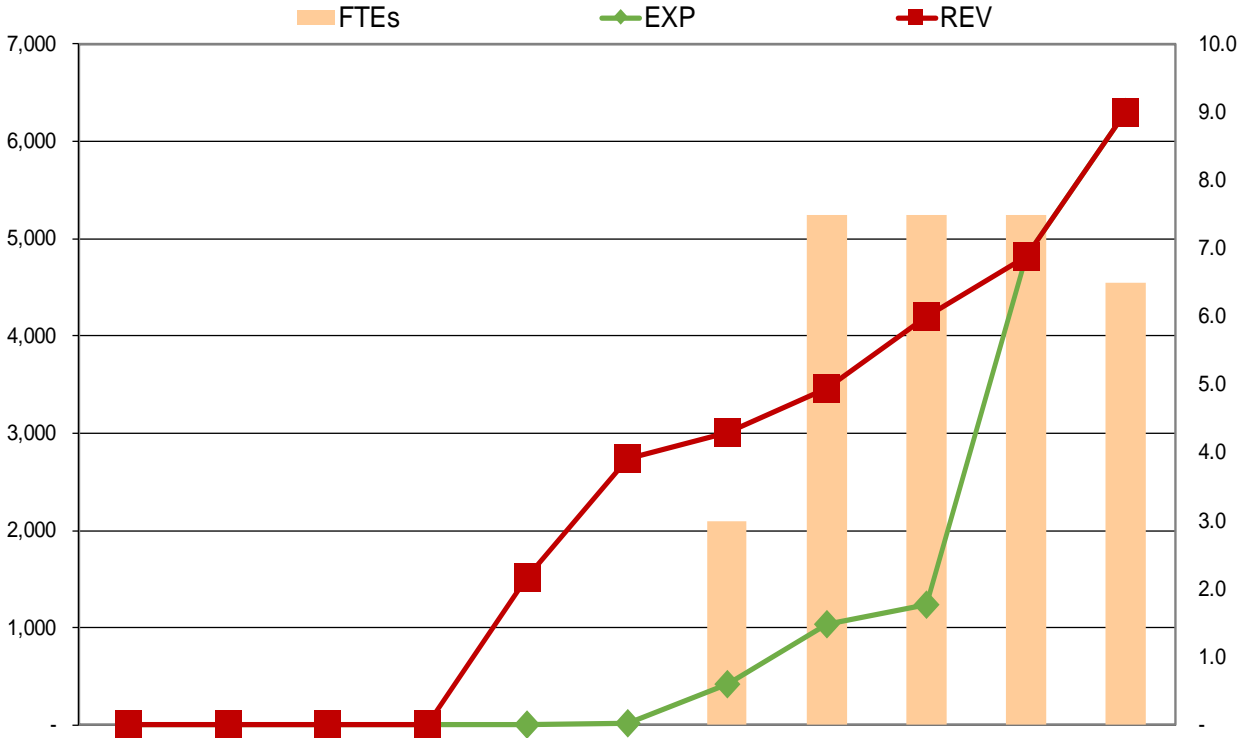
	FY 2016 ACTUAL	FY 2017 ADOPTED	FY 2017 RE-ESTIMATE	FY 2018 PROPOSED
ADJUSTED BALANCE, JULY 1				
Construction Reserve	\$9,265,875	\$10,823,046	\$11,769,031	\$13,367,631
Reserve	-	450,000	450,000	570,000
TOTAL BALANCE	9,265,875	11,273,046	12,219,031	13,937,631
REVENUES				
Tax Increment Area	3,980,241	4,812,420	5,348,600	6,304,880
Federal Grant Revenues	215,983			
TOTAL REVENUES	4,196,224	4,812,420	5,348,600	6,304,880
TOTAL REVENUES & BALANCE	13,462,099	16,085,466	17,567,631	20,242,511
EXPENSES				
Capital Projects - Current Year	1,243,068	4,812,420	3,300,000	6,304,880
Capital Projects - Carry-Over	-	3,787,580	-	295,120
Contingency	-	860,000	330,000	660,000
TOTAL EXPENSES	1,243,068	9,460,000	3,630,000	7,260,000
BALANCE, JUNE 30				
Construction Reserve	11,769,031	6,125,466	13,367,631	12,342,511
Reserve ²	450,000	500,000	570,000	640,000
TOTAL BALANCE	\$12,219,031	\$6,625,466	\$13,937,631	\$12,982,511

Notes:

1. Most capital projects span multiple years from design to construction completion. The FY 2016 Actual and FY 2017 Re-Estimate columns reflect that funding for capital projects is carried forward each fiscal year; ending balances fluctuate reflecting the carryover of these funds. The FY 2018 proposed budget column is presented in a similar fashion to show planned execution of projects in the fiscal year. These are staffs' best estimates based on preliminary plans, and design and construction schedules.
2. Balances equivalent to a minimum of ten percent of annual budgeted TIF revenues are held in a reserve in accordance with the County Board's financial and debt policies.

**CRYSTAL CITY, POTOMAC YARD & PENTAGON CITY TAX INCREMENT FINANCING AREA
TEN-YEAR HISTORY**

EXPENDITURE, REVENUE AND FULL-TIME EQUIVALENT TRENDS



\$ in 000s	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Adopted Budget	FY 2018 Proposed Budget
EXP	-	-	-	-	\$12	\$418	\$1,030	\$1,243	\$4,812	\$6,305
REV	-	-	-	\$1,520	\$2,735	\$3,003	\$3,467	\$4,196	\$4,812	\$6,305
FTEs	-	-	-	-	-	3.00	7.50	7.50	7.50	6.50

**CRYSTAL CITY, POTOMAC YARD & PENTAGON CITY TAX INCREMENT FINANCING AREA
TEN-YEAR HISTORY**

Fiscal Year	Description	FTEs
FY 2012	<ul style="list-style-type: none"> ▪ The Tax Increment Financing Area (TIF) was established by the County Board in October 2010, with an initial allocation of 33 percent of the incremental real estate tax revenue over the base of \$9.8 billion going to the TIF. The adopted General Fund CY 2011 real estate tax rate is \$0.945 (excluding the stormwater tax) for each \$100 of assessed value, and 33 percent of the estimated tax base of the FY 2012 increment of \$292 million, or \$455,449 will initiate this fund. The revenue includes only a partial year (the June 2012 tax payment). The adopted budget assumes a three percent growth in the real estate tax base. Subsequent to adoption of the FY 2012 budget, real estate values increased 9.8 percent between CY 2011 and CY 2012, yielding a revised revenue estimate of \$1,520,200. 	
FY 2013	<ul style="list-style-type: none"> ▪ The budget increases due to: a full year of revenue collection compared to a partial year's revenues in FY 2012; an increase in the real property tax rate from \$0.945 to \$0.958 per \$100 of assessed value (excluding the stormwater tax); and, an assumed increase of three percent over the CY 2012 assessed value of property in the area. ▪ The portion of real estate revenue dedicated to the TIF in the area remains at 33 percent in FY 2013. 	
FY 2014	<ul style="list-style-type: none"> ▪ Revenue projections in the tax district decreased due to a decline in real estate assessments in CY 2013 compared to CY 2012. The program is able to accommodate decreased funding due to recent adjustments to project timelines. As a result, the impact on project development in the short-term is negligible. ▪ There are a total of 8.0 authorized FTEs, of which 3.0 FTEs are funded by the Crystal City Tax Increment Fund and 5.0 FTEs are funded by the Transportation Capital Fund. ▪ <i>There are a total of 23.0 FTEs to support major street and transit program elements of which 15.5 FTEs are funded by the Transportation Capital Fund and 7.5 FTEs are funded by the Crystal City Tax Increment Fund. Of the total Crystal City TIF FTE's, 3.0 FTEs were funded at FY 2014 adoption and 4.5 FTEs were funded at FY 2013 closeout.</i> 	<p>3.0</p> <p>4.5</p>
FY 2015	<ul style="list-style-type: none"> ▪ Revenue projections in the tax district increased due to increases in real estate tax assessments in CY 2014 compared to CY 2013, as well as some adjustments to the CY 2013 assessments that increased revenue estimates for FY 2014. 	
FY 2016	<ul style="list-style-type: none"> ▪ Revenue projections in the tax district decreased due to decreases in real estate tax assessments in CY 2015 compared to CY 2014. 	
FY 2017	<ul style="list-style-type: none"> ▪ Revenues and expenditures increased based on the tax district increase due to increases in real estate assessments in CY 2016 compared to CY 2015. 	