BACON'S REBELLION
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Growth that Pays for Itself

Greenvest's proposed $1.3 billion development in Loudoun County would contribute $1 billion toward roads, schools and public facilities. A great deal for the public? Not everyone thinks so.

By James A. Bacon

Here is the political reality today in many parts of Virginia: If you want to develop a major real estate project, you'd better find a way to pay for the public investments yourself.

Roads, schools, libraries, parks, fire stations, you name it... Voters don't want to foot the bill for newcomers. They're already driving on congested roads, sending their kids to crowded schools and paying ever-higher property taxes -- and they're taking none too kindly to anyone who might add to their problems.

Over the years, local governments have been shifting an increasing share of the cost for public facilities to developers, who in turn pass on the cost to home buyers and tenants. Now, in Loudoun County, things have reached the point where a major developer, Greenvest, could pony up a mind-boggling *$1 billion* in public improvements over the 20-year life of a project.

Greenvest, based in Tysons Corner, wants to develop 4,200 acres in the Dulles South area of Loudoun County, building 15,000 housing units and more than one million square feet of retail and commercial space. To offset the impact of all those new residents, the company expects to chip in $200 million for the improvement of local roads and some $46,000 per house in proffers for public facilities -- another $860 million. By any measure, it's an extraordinary contribution.

What's more, instead of delivering the public improvements towards the tail end of the development cycle, Greenvest is promising to phase in many of the improvements up front. That way Loudounites don't have to wait 20 years for the benefits, says Packie E. Crown, vice president planning/zoning and manager of the South Dulles project.

If self-funding growth, like self-sustaining cold fusion, sounds too good to be true, it probably is, counters Ed Gorski, the Loudoun County land use officer for the Piedmont Environmental Council. Greenvest may have good intentions, but Gorski is skeptical that the economics of the project will work. If the developer takes on too much debt, and if it fails, he asks, who holds the bag? Loudoun County does. It makes far more sense, he argues, to develop those houses, stores and offices in areas where much of the infrastructure already exists.

For Virginia, the Dulles South battle is shaping up as the titanic planning/zoning struggle of the decade -- of importance not only for its impact on the fastest- growing region in the state but its implications for the wider debate over how Virginia should handle growth.

- Just how much should developers (and the newcomers they pass costs along to) contribute to offset the costs of new development?

- Is it reasonable to expect newcomers to absorb the full cost of improving roads and public facilities, through higher real estate prices and special tax districts, when earlier residents did not?

- What assurances are there that a company like Greenvest can deliver on seemingly extravagant promises?

On the one side is Greenvest, a deep-pocketed developer with financial backing for a $1.3 billion project, backed by an array of consultants, architects, engineers, investment bankers and other specialists. On the other side are the Piedmont Environmental Council and local citizen groups determined to block the runaway growth that threatens their picturesque lifestyle of hamlets and horse farms in the western reaches of the county. Arbitrating the conflict is the county government of Loudoun, whose political leaders have flip-flopped between growth and anti-growth boards three times in recent elections.

Loudoun cannot hide from the problem or avoid the hard decisions. The county stands smack in the path of growth generated by cauldrons of IT innovation in Reston, Herndon and Chantilly right across the Fairfax County line. Business is growing, it's hiring employees, people are moving to the Washington metro area, and they need somewhere to live. The Washington Council of Governments estimates that Loudoun alone will add 110,000 households -- not people, but *households* -- by the year 2030.

The question is not *if* development will occur. The questions are: Where will it occur, what pattern will it take, and who will pay for it?

Greenvest was formed in the early 1990s, in the aftermath of the Savings & Loan crisis. The two principals, Jeffrey Sneider and Ahmad Abdul-Baki perfected a business taking over non-performing loans from the banks, reactivating the projects and getting home builders back to work. Starting on small scale in Fairfax County, they took a big leap mid-decade when they acquired the Cascades property in Loudoun County from Chevy Chase Savings Bank. At that time, Jim Duszynski, now president, left Chevy Chase and joined the company.

Greenvest owns 4,200 acres in the Upper Foley and Broad Run subareas of Dulles South. Located just beyond the frontier of suburban development encroaching from Fairfax County, the properties are currently zoned for very low-density development. But Greenvest is urging Loudoun County to revise its comprehensive plan and rezone its three tracts to accommodate a more "suburban" pattern of development.

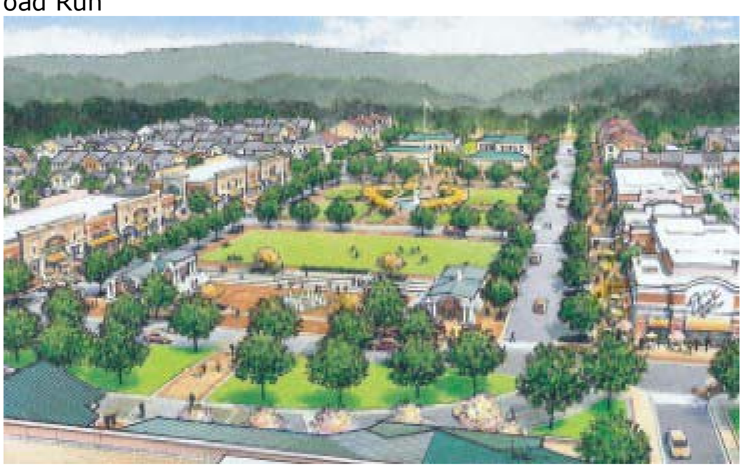
Even under the Greenvest plan, Dulles South would represent a density buffer zone between the conventional suburban development to the east and the countryside to the west. Densities would range from about three dwelling units per acre south of Braddock Road to four acres per unit to the north. Plans call for ample open space -- wetlands, flood plains, creek valleys, even "significant tree stands" -- with buildings clustered in four separate projects rather than smeared in large lots over the landscape.

During his Chevy Chase banking days, Duszynski had worked with New Urbanism guru Andres Duany on the famous Kentlands project in Maryland. To develop ideas for South Dulles, he visited several notable New Urbanism projects in the Southeastern U.S. as well as old urban classics such as Charleston, S.C., and Savannah, Ga. He hired Stephen Fuller, an Atlanta architect renowned for his neo-traditional work, to develop the project's look and feel.

Although Duszynski sees a place for New Urbanism design principles in parts of the development, he plans to offer a variety of architectural styles. "You've got to provide chocolate, vanilla and strawberry," he says. "It shouldn't be all neo-traditional or all cul de sacs. There should be a variety of housing types and layouts to meet all the different market segments out there. You don't want it to be monolithic."

The proposed Lenah community, one of the four mixed-use projects, illustrates the way Greenvest plans to blend traditional and contemporary design elements. The streetscapes all will be walkable. There will be an architecturally prominent neighborhood school serving as a visual focal point -- two stories tall, with a bell tower -- along with a pedestrian-friendly neighborhood commercial center. Houses will be set back from the sidewalks by varying distances but, in a New Urbanism no-no, will have garages facing the street. In another departure from neo-traditional design, there will be no alleyways.

In what the Greenvest team hopes will be a big selling point, the project will include 12.5 percent "workforce" housing, that is, units affordable to working and middle class residents. The price of housing in Loudoun has gotten so expensive that newcomers earning the median income can't afford to buy, says Crown. "Two teachers making



Conceptual rendering of the Greenfields Town Center

$50,000 a year earn more than the median income. But they can't afford to buy a million-dollar home."

The principal of one Loudoun elementary school told her that 80 percent of the teachers live outside the county, says Crown, the Greenvest project manager for South Dulles. Loudoun is experiencing similar problems finding sheriffs, healthcare providers, fire fighters and rescue workers. "They're hard to recruit."

The solution is remarkably simple: Build smaller housing units. Greenvest proposes about one-third of the affordable houses to be detached, one-third attached and one-third townhouses.

From the inception of the project, Duszynski says, the goal has been to design a project where "growth pays for itself." Greenvest has taken a holistic approach, designing its projects with an eye toward other projects planned or zoned for the area west of Dulles airport. Paying particular attention to the local transportation network, mostly two-lane country roads, Greenvest has proposed some $200 million in road improvements funded through Community Development Authorities. That financing platform, combined with proffers and privately-funded road projects by other developers, will amount to a total private investment in the area of more than $700 million in the road network.

Greenvest isn't making those improvements out of pure, philanthropic motives. "We've got to market our projects. We can't market them unless people can get to them," explains Crown. "All these roads are substandard today. Without some level of development, they're going to remain substandard."

Conceptual design of Arcola Town Center

Greenvest also proposes making significant contributions toward the development of public facilities and amenities. The Arcola project calls for donating land to George Mason University for the construction of a Loudoun County campus. Greenvest also would build an elementary school in an early phase and deed it to the county to operate -- providing immediate schoolrooms for the fast-growing county and bypassing the long, cumbersome government process for getting a school built.

"We fully anticipate paying a lot of proffers," says Crown. Facilities would include schools, recreation, fire and rescue. Capital expenditures for public amenities are expected to average about $46,000 per housing unit. Part of that sum includes a $500-per-house contribution towards implementation of a Traffic Demand Management plan. Greenvest's preference is to purchase some 15 transit buses and erect a regional transit-transfer station to create a serious mass transit option for eastern Loudoun.

What's distinctive about the Greenvest proposal is the creation of three Community Development Authorities -- two for roads, one for the elementary school -- that will issue bonds for construction of critical infrastructure up front. Traditionally, developers would phase in proffers over the 20-year life of a project. As contemplated in Greenvest's original filing, by contrast, the CDAs would raise $192 million immediately. (Crown acknowledges that inflation has driven that number north of $200 million since the filing.)

The purpose of building infrastructure up front, explains Crown, is to avoid problems encountered elsewhere in which an influx of new residents overwhelmed local roads and public facilities before the proffers were paid and the improvements were built. "Looking across the country for models for how to get these things done, we found that CDAs are proven in high-growth areas," says Duszinski. "There's not another way to finance something of this magnitude."

Ed Gorski, a former Loudoun County planner, now works for the Piedmont Environmental Council as Loudoun County land use officer. He's taken the lead for the PEC in analyzing the Greenvest project. He doesn't have much good to say about it. It's the wrong project in the wrong place at the wrong time, he says. " The infrastructure's not there," he says. " The infrastructure will be inadequate for years if they get the land re-zoned."

In Gorski's assessment, the Greenvest projects have three major problems. First, they will overwhelm the local road network. Second, Loudoun should promote growth in areas where infrastructure already exists. And third, the project is financially risky; Loudoun County could be on the hook if it fails.

Bacon's Rebellion addressed the first set of issues -- adequacy of the local transportation system -- in the July 24, 2005 edition. In a nutshell: Greenvest says that private developers have proffered or are planning $700 million in road improvements in the area west of Dulles airport; PEC cites a Virginia Department of Transportation study indicating that development of South Dulles would send ripples of gridlock running for miles to the south, east and north. (See "Loudoun Lightning Rod," July 24, 2006, for details.)

Greenvest is part of a bigger problem, Gorski says. Northern Virginia is projected to experience tremendous population growth over the next 20 years, and Loudoun is positioned geographically to absorb the brunt of that growth: 110,000 households between 2000 and 2030, according to Washington Council of Governments projections. That's a 184-percent increase. Under the best of circumstances, such a surge would place an incredible strain on roads and infrastructure of what had been a county dominated by farms and villages.

Even with that tidal wave of growth, Gorski says, Loudoun is massively over zoned. "The plan calls for non-residential build-out of between four and five Tysons Corners. There's never going to be that level of [commercial construction] here." The county also has planned "vastly more residential planning than they can afford. ... They're not going to be able to build enough lanes on the three main east-west arteries to handle the traffic. There just isn't the room."

If growth must occur on that scale, says Gorski, it should take place along Route 7 and Route 28 where it has been anticipated ever since Loudoun began planning in the early 1980s, and where the county has made infrastructure improvements. Zoning has been approved for 37,000 more homes, a seven- or eight-year supply, assuming a continuation of recent growth rates of 6,000 new homes per year. If home building slows -- as it seems to be doing -- that could stretch into a 10-year supply.

Which leads to the next objection: Gorski thinks there is a significant risk that the Greenvest project could flop. "In 30 years, I've seen only one development project do significant infrastructure improvements up front," Gorski says. "And they went bankrupt."

That's of concern to more than just Greenvest. Once thousands of families have moved into the area, he argues, they would clamor for Loudoun County to step in and fulfill Greenvest's commitments.

When developers pay for improvements of the magnitude Greenvest is offering, they typically phase them in over the life-time of the project. But building $200 million or more in improvements up front will entail significant financial carrying costs. As lots are sold, home owners will assume the burden for paying off those bonds eventually, Gorski says, but early in the project the developer is at serious risk. "The problem is those first three to five years. If they can't generate the occupied rooftops, they're not going to get the money to pay off the CDAs. There's going to be an issue as to whether they'll generate enough revenues to pay the bonds."

If Greenvest fails, who will pay the bond-holders? Says Gorski: "You'll have schools and roads. Who's in the market to buy schools and roads? ... The bond-rating agencies anticipate Loudoun stepping in to fill the fiscal gap."

Gorski's fears are unfounded, Greenvest officials insist. Greenvest will deed the elementary school to Loudoun County, so there's no possibility of bond-holders taking it back. As for the roads, they aren't at risk either -- it's not as if bond-holders could roll them up and take them back to New York. The collateral spelled out in the Community Development Authority bonds will be the land, now much more valuable thanks to the improvements. If potential bond investors say there's not enough collateral to provide them the margin of safety they want, the deal won't get done. End of story. No risk to the county.

But Gorski raises other objections. He believes that Greenvest's proposed road improvements fall way short of what's needed. They won't come close to paying for needed improvements. Greenvest's investments will help meet the needs of the existing county road plan -- but that road plan is predicated on 5,000 households not the 15,000 that Greenvest wants to build. The county transportation plan would be obsolete the day Greenvest got its rezoning.

Gorski also raises ticklish issues

of fairness. Greenvest home buyers will be paying some $2,000 a year to pay off the CDA bonds while neighbors outside the CDA districts will not. "What happens if the county redistricts the school districts, and little Johnny isn't going to the school the family is paying for? And what if kids from outside the boundary start attending that school but the parents aren't paying? That'll create an issue."

Round and round the arguments go. But the big picture gets lost in the dust. The Washington metro area is forecast to have tremendous growth over the next 30 years. Where should it go? If not in South Dulles, where? And what form would the development take?

"We're not having the right debate," contends George K. McGregor, Greenvest director of community planning. Should Loudoun turn down the Greenvest rezoning plan, is the status quo -- development of 5,000 houses on large lots, with developers contributing nothing for new roads and public facilities -- any more attractive? Are Loudoun citizens, concerned about the traffic impact, going to be happier if growth hops over Loudoun to the next county -- and all those people clog Loudoun roads driving to work in Fairfax County?

Bottom line: There are no simple solutions for Washington's runaway growth. Every alternative poses an element of risk. Someone always ends up holding the short end of the stick. If planning for growth were easy, someone would have stumbled across the formula by now. But no one has. If we can avoid monumental fiascos, we're doing about as well as we possibly can do.