



## **ISSUES BULLETIN 2009-1**

February 5, 2009

### **Statement of the ARCH Board**

#### **February 5, 2009 RA Public Hearing** **Re: Draft RA Headquarters Referendum**

The ARCH Issues Committee and Board met over the past week to consider the draft referendum question and Item L (the supplementary material presented at the January 22 RA Board of Directors meeting). This Issues Bulletin identifies possible changes to the referendum wording and raises issues we believe our members would want clarified/addressed before they decide how to vote. Our sense is that many of these issues will arise given the significant changes from what was put before the members on this subject just four years ago. We hope that this Issues Bulletin will aid the RA Board in assessing how best to proceed on this important question.

We identified five major issue areas, with attendant questions. The five major issue areas are:

- What are the RA's current and projected space requirements for a headquarters building?
- What will be the cost to members of buying this space (as proposed in the draft question) versus building it or continuing to lease?
- What impact will this project have on the RA's other capital needs?
- How will the RA Board (if at all) incorporate member input in evaluating and choosing from among available options if the referendum is approved?
- Should additional specificity or limitation be added to the referendum question?

#### **RA'S CURRENT AND PROJECTED SPACE REQUIREMENTS**

The last referendum sought authorization to buy or build approximately 20,000 sq. ft. of "utilitarian" or Type B space (that size and type of space are equivalent to what RA currently leases). The referendum authorized a purchase price of up to \$5M (with a 5% annual escalator), which equated to approximately \$240/sq. ft.. In 2010 terms that would amount to a purchase price of \$6.4M (equivalent to about \$320/sq. ft.).

Conversely, the current draft referendum proposes a \$15M price tag. It does not specify the type or amount of space that would be purchased. Item L includes a Statement of Five-year Projected Operating Expenses for 35,000 sq. ft. of space, which at \$15M equates to approximately \$430/sq. ft.. That is \$110/sq. ft. more than would have been allowed under the prior referendum with the escalator. We understand that market conditions and needs change. Still, if the 35,000 sq. ft number is serving as the base line need for this referendum, that nearly doubles the RA's space requirement, and the \$15M authorization is triple that contained in the prior referendum. The \$110/sq. ft. increase over the prior referendum drew significant attention in our discussions, especially given current market conditions.

These observations prompted the following questions:



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- What is the size of the current leased space?
- What is the size of RA's projected space requirement for a new headquarters? On assumption it is significantly larger than that contemplated under the prior referendum, why?
- Relatedly, ARCH recognizes that there is strong community demand for additional and affordable meeting or conference space (especially for our community organizations). Is such space, and how much, included in the contemplated \$15M purchase price?
- What other amenities, if any, are part of the proposed purchase? And would build-out costs be included in the \$15M figure?
- What type of space is the RA Board proposing to acquire? If not Type B, please explain.
- If the RA Board acquires more space than the RA needs, does the Board intend to lease that space?
- If the RA Board were to buy 35,000 sq. ft. at the full \$15M authorization, that would be \$430/sq. ft.; if it bought less space for the fully authorized amount, the price per sq. ft. would be even higher. This leads to two questions:
  - Is there a maximum price/sq. ft. above which the RA Board is unwilling to acquire headquarters space and, if so, what is it?
  - At \$430 the price/sq. ft. would be \$110 higher than would be allowed (with the escalator) under the last referendum. Especially given current market conditions, why does the RA Board believe that figure is appropriate?

**THE COST TO MEMBERS**

In addition to understanding the base line need that underlies this referendum (per the above), the other critically important factor for members in deciding how to vote will be understanding the actual cost impact (in terms of assessment and/or special assessment increases), and how those impacts compare among the buy-build-lease options. We note that the last referendum included not only a buy but also a build option.

- Item L notes that the RA Board does not believe building is a feasible option given current market conditions. Given the fluidity of market conditions, however, building may not make sense today but it might make sense in the near future, at which time (if a long-term headquarters solution has not been found) the RA Board may want the build option. Why not also include a build option in the current draft question?
- To make a truly informed decision, we think the members would require a cost/benefit analysis of the three options – lease, buy, and build – based on the projected space requirement, and the impact each of those options would have on member assessments and the financial condition of the RA. Comparing each to the current leasing arrangement so members can understand the delta between what they pay now and what they would pay in each of the three proposed scenarios would also be helpful. Our sense is the analysis should include not only the capital requirements for each, but what will be required going forward to maintain, upkeep, and insure



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the premises and the impact to Repair and Replacement Reserve contributions (buying or building will create equity for the members, but may differ significantly from leasing on certain of these other important financial considerations). Will such a cost/benefit analysis be provided to the members and, if not, why not?

- Equity raised through the regular assessment, a Special Assessment, and debt are all available mechanisms to finance a possible acquisition. How does the RA Board propose to finance the capital component of this acquisition?
- Since leasing will always remain an option, under what circumstances would RA continue to lease space even if this referendum is approved?
- What is the RA Board's Plan B in the event that the referendum is not approved?

**IMPACT ON OTHER CAPITAL REQUIREMENTS**

Other capital improvements are being discussed in the Reston community (e.g., the possible joint RA-RCC recreational center). This raises the question of how RA's purchase of new space for its headquarters might affect its participation or involvement in other endeavors requiring capital investment. The proposal also leads to questions concerning how the new RA headquarters would mesh with other new facilities, such as the proposed recreation center.

- What other capital needs does the RA Board project over the next decade?
- What impact, if any, would purchasing headquarters space have on those plans?
- As noted above, we recognize the need for additional, affordable meeting space in the community. The proposed recreational center might or might not include dedicated meeting space. How does the RA Board plan to ensure that the RA's new headquarters contains enough meeting and conference space to satisfy community needs while avoiding the potential for redundancy of assets that may result from parallel capital projects?

**COMMUNITY INVOLVEMENT IN IMPLEMENTATION**

If approved, the referendum will provide the authorization to buy (and/or potentially build), but assessing the different options the market offers and measuring how those options best match RA's needs will require considerable analysis and possibly difficult choices.

- Does the RA Board intend to involve members in sorting through RA's possible headquarter options if this referendum is approved and, if so, how? As part of the last referendum on this issue, the RA Board promised to seek the advice of a blue ribbon panel.
- What role would the Fiscal Committee play in assessing possible options?



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### **ADDING SPECIFICITY TO THE PROPOSAL**

The last referendum on this subject contained a specific value proposition (though not all of it was in the referendum question itself): \$240/sq. ft. for equivalent, utilitarian, Type-B space up to a total \$5M price tag (with a 5% annual escalator). The Board also committed publicly to a sunset provision that limited the referendum only to any move required by expiration of the then-current lease. The current draft asks for authorization to spend up to \$15M, but has no other limitations. There was discussion within ARCH about whether additional support for this question could be gained by making the question more specific (though we understand that must be balanced with the Board's need for a certain amount of flexibility in making such a complex decision). Could or should there be additional specificity in this referendum that addresses one or more of the following:

- Limiting the amount, type, and/or price/sq. ft. of space that could be purchased;
- Limiting the location (the prior referendum limited the location to "Reston"; worth noting is that the idea of leasing, buying, or building an RA headquarters outside the RA, and certainly outside Reston, was not something that was enthusiastically received in our own internal discussions);
- Defining or limiting the RA Board's ability to lease or sublease unused space;
- Including some type of sunset provision; and/or
- Defining how the project will be financed. Presumably the Repair and Replacement Reserve would not be used. Should that be stated? Are there any other limitations on financing that should be considered and/or stated?

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