



ISSUES BULLETIN 2009-2 THE 2009 RA HEADQUARTERS REFERENDUM

February 24, 2009

ARCH believes that, to date, the Reston Association (RA) Board has not made the case for the new headquarters referendum

With the current headquarters lease expiring in March 2010, the members are being asked to authorize the RA Board to spend up to \$15 million to buy or build 35,000 sq. ft. of new headquarters space. That is triple the authorization (\$5 million with a 5% annual escalator) and nearly double the proposed space requirement (20,000 sq. ft.) that the RA members approved by referendum just four years ago. The RA Board maintains that the 2005 space assumptions do not meet the RA's increased present and future needs, but it has been unable to provide the members with a space analysis because the Board believes that analysis is "confidential." In addition, the incremental cost to members of buying (or leasing) compared to what they now spend for headquarters space has not been made clear.

We accept that buying under the right circumstances could be a worthwhile alternative to leasing and that the current office space may well need to be upgraded and perhaps increased (particularly to add additional conference and meeting space). But the RA Board has not made the case on:

- *What will be the incremental cost to members in annual assessment increases of buying (exclusive of any building value or equity) or leasing 35,000 sq. ft. versus what members pay now for the existing space?*
- *Why 35,000 sq. ft. (a space analysis, which the RA Board says is "confidential," has not been provided to members)?*
- *Why \$15 million (and what are the likely sources of funding and the impact on the RA's financial (cash) position)?*
- *Why is the Board not willing to require that any purchase be limited to a site in Reston?*

The Reston Association's Referendum Question:

Should the Reston Association Board of Directors be authorized to finance and expend, as determined by the Board of Directors, an amount not to exceed \$15,000,000 to purchase a commercial office building or condominium space, or interest therein, or, in the alternative, to purchase property and to construct a building thereon for future use as the Association's headquarters?

EXHIBIT A

COMPARISON OF THE 2005 AND 2009 RA HQ REFERENDA

Issue	2005 HQ Referendum	2009 HQ Referendum
Authority Sought¹	Buy or Build	Buy or Build
Stated Space Requirement²	20,000 sq. ft. Type B; not condo ³	35,000 sq. ft.; possibly condo
Financial Authorization	\$5M + 5% annual escalator = \$6.4M	\$15M
How much space could the RA Board acquire under the authorization?⁴	22,857 sq. ft. (\$6.4M ÷ \$280/sq. ft.)	53,571 sq. ft. (\$15M ÷ \$280/sq. ft.)
Would RA Board acquire more space than needed?⁵	No	Yes ⁶
Site Location	Must be in "Reston" ⁷	No limitation ⁸
Use of Repair and Replacement Reserve for capital outlay⁹	No	RA Board has "not ruled out" any financing option, including use of this Reserve
RA Board/Fiscal Committee Endorsement	Unanimous Board and Fiscal Comm. vote	RA Board voted 6-2 in support; Fiscal Comm. unanimously supports buy concept but did not vote on space or market analyses

¹ The RA Board has permanent authority to lease, so that will always be an option; it needs member approval to buy or build.

² Not included in either referendum but stated publicly.

³ This is equivalent to the current leased space, but reconfigured to maximize the square footage.

⁴ The RA Board has provided a projection that it believes it can buy and build out 35,000 sq. ft. for \$9.8M, which equates to \$280/sq. ft.. So we have used that number.

⁵ Not in either referendum, but stated publicly.

⁶ RA staff indicated if a great deal with 50,000 sq. ft. is found it might be worth taking. What would be done with such space (which significantly exceeds the proposed requirement) is unclear. The Board says it does not intend to lease any unused space, but it does not need member approval to do so.

⁷ The then RA Board publicly defined that as RA or Town Center.

⁸ The RA Board has said it intends to buy within the RA or the RCIG. However, unlike the last referendum, this is not stated in the referendum question and is thus not binding.

⁹ Not included in either referendum but stated publicly.

EXHIBIT B

At the Feb. 5, 2009 hearing, ARCH submitted Issues Bulletin 2009-1 (available on our web site) which identified a series of questions and issues concerning the then-draft referendum question. Our Issues Committee met with RA Board President Robin Smyers on February 20, and ARCH members attended the Feb. 21 RA Board referendum forum with cluster leaders. To make an informed judgment about the pending referendum, ARCH believes the following information should have been available when ballots were mailed. While some within ARCH have differences in the strength of feeling about the various issues, individually or collectively these questions/issues form the essential bases of ARCH's belief that the case for the referendum has not to date been made:

- **Incremental Cost to Members:** A 10-year projection showing the out-of-pocket assessment increases needed to fund any lease, purchase, or build of a 35,000 sq. ft. space has not been provided. The RA Board has provided a 5- and 10-year "occupancy cost" spread sheet that only provides lease versus buy analysis for 35,000 sq. ft.. This analysis also appears to reduce net member costs for a building purchase by the increase in building equity, and that assumes a building sale in 5 or 10 years.¹⁰ For a purchase option, what will be the out-of-pocket impact on individual annual assessments, irrespective of projected increases in building equity, to pay down a mortgage and recoup a down payment (and any other up-front equity) versus leasing and how does that compare to what members pay now for the current leased premises?
- **Why 35,000 sq. ft.:** When ARCH asked for a space analysis we were told that information is "confidential."¹¹ What space and requirements analysis supports 35,000 sq. ft. including: the kind and amount of space needed by the +/- 50 current employees working at the headquarters; projected headcount over time by position/role; any special facilities or amenities; how many and how large are the meeting/conference rooms the RA Board is contemplating?¹² We note also that the authorization, at current market rates, could allow for purchase of as much as 50,000+ sq. ft. of space. Long-term leasing of significant amounts of space raises concerns with some about transferring meaningful risk and opportunity cost to the RA. This was not a meaningful concern in 2005 given the more limited authorization (making it unlikely RA could buy significantly more space than it needs).
- **Why \$15M (and what is the likely source of that money)?:** Where is whatever up-front equity payments that may be required (the planning estimate suggests a \$2.1M down payment including points) going to come from and how does that impact members and RA's financial (especially cash) position? And why has the RA Board refused to say it will not use the Repair and Replacement Reserve for this purpose (as the 2005 Board said)?¹³ We note also that \$15M is 50% greater than the projected purchase price (according to the spread sheet).
- **A Reston Site:** The current referendum, unlike the 2005 referendum, does not require that the headquarters be located in "Reston." The RA Board says it intends to buy in either RA or the Reston Center for Industry and Government (the area within the Reston Master Plan bordering the Dulles Toll Road), but it declined to make this a binding requirement within the referendum question.

¹⁰ Although unclear from the spread sheet itself, RA staff confirmed at the Feb. 23 cluster meeting that the spread sheet's \$9.8M projected cost of buying includes build out.

¹¹ We were also told the identity of the commercial realty consultant the RA Board retained in May 2008 and how that individual or firm was selected is also "confidential." The Board has said, however, that the consultant will not be paid unless and until a real estate transaction is consummated. While contract negotiations and pricing or negotiating positions are understandably "confidential," it is unclear to us how the identity and selection process of a consultant or a routine space analysis is considered "confidential."

¹² In the absence of an RA space analysis, ARCH attempted to put together its own. (See http://restonarch.org/issues/ic_rahq.htm). We used two different methods; both include two 50x50 sq. ft. meeting rooms and a 20% (10-person) increase to staff. Both suggest 20,000 sq. ft., with a more efficient space plan, would meet RA's needs. This corresponds with the 2005 projections. We do not say these models are accurate. We prepared them in good faith since no space analysis has been provided.

¹³ The most likely source for those dollars would seem to be RA's Operating Reserve (currently @ \$3.4M, equivalent to 28% of RA's total expenses). A \$2M withdrawal would reduce the Operating Reserve to @ 12% of RA's total expenses. What would be the impact on RA reserve accounts based on various funding plans RA is considering? In particular, if the Operating Reserve can be sensibly reduced by such amounts, would not that equity be better reclassified into the Repair and Replacement Reserve (which members were told two years ago would require material increases in contributions for the next decade or more to address RA's aging infrastructure)?