



POSITION STATEMENT

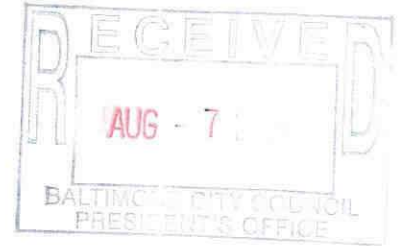
Harbor Point Tax Increment Financing Proposal

Support with Amendments

Donald C. Fry

President & CEO

Greater Baltimore Committee



The Greater Baltimore Committee strongly supports the development of Harbor Point and sees its development, including the construction of a new iconic corporate office building that will house thousands of employees of Exelon Corporation, as a positive economic development project for the City of Baltimore. Furthermore, the GBC fully recognizes and acknowledges the construction challenges of the parcel complicated by the Allied Signal chromium processing facility having previously been located on the property. This type of brown field development is critical to advance Baltimore's commercial and residential development potential. It will significantly improve the city's tax base, and will prove to be a vital long term benefit for the city.

The \$106.9 million Harbor Point Tax Increment Financing (TIF) proposal pending before the Baltimore City Council creates a new, approximately 3-million square-foot, master-planned mixed-use community built on a 27-acre waterfront site being hailed by the property owner and city officials as one of the best locations on the East Coast. In recent years, the area known as "Harbor East" where Harbor Point is located has experienced remarkable success in attracting businesses, restaurants, and residents to downtown Baltimore. This has resulted in a vibrancy and vitality not experienced in downtown Baltimore since the development of the Inner Harbor some thirty years ago.

A TIF is a form of municipal financing that has been used successfully by many cities across the country. It is a proven method of financing public infrastructure associated with the construction of real estate development projects. Despite some public pronouncements to the contrary, a TIF is not a tax break for the developer. TIF funds are not used to finance private improvements and do not lower a property owner's taxes. A TIF captures new, or incremental, taxes generated by the increased property value due to the development project and utilizes the revenue to repay bonds that have been issued and sold to fund infrastructure (roads, utilities, lighting, and other appropriate public uses) on the subject property. Should the taxes generated on the property be insufficient to make the required bond payments, the owners of the property within the TIF district, in this case Harbor Point Development Holdings, LLC, managed by Beatty Development Group, LLC, would be responsible for any shortfall in the payment of the bonds in full.

The Harbor Point project is to be built in phases over approximately 12 years. The total project is expected to cost over \$1 billion, including \$920 million of private investment and \$106.9 million through the proposed TIF bonds to pay for public infrastructure that does not presently exist at the site.

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The Executive Committee of the Greater Baltimore Committee, although supportive of the Harbor Point project, is concerned with the use of the funds and the magnitude of the TIF proceeds. The City of Baltimore currently enjoys a quality bond rating for a municipality and excessive debt could endanger that rating. Without question, from a strictly legal perspective, the City of Baltimore is not liable for payment to the bondholders should the incremental taxes be insufficient to cover the cost of the debt and should the owner of the property default in payment as well.

This point has been stressed by many in City Hall who frequently state that there is little or no risk to the city taxpayers should a default occur and the onus would fall to the developer, Harbor Point Development Holdings/Beatty Development Group.

Although true to a point, those same officials acknowledge that though a “legal” obligation does not exist, the City of Baltimore would have a “moral” obligation to repay the bond holders. In fact, should the incremental taxes be insufficient to repay the debt and if the property owner defaults, it would arguably be “incumbent” on the City of Baltimore to step in and take action in order to protect its government financing reputation. The failure of the city to “hold harmless” the bondholders would undermine the future issuance of municipal bonds for important public projects.

The Executive Committee of the GBC is concerned that this fact, when coupled with the magnitude of the proposed TIF, could negatively impact the city’s favorable bond rating. The entities that evaluate bond ratings are well aware of the legal, moral, and reputational risks imposed by the issuance of bonds and take all those factors into consideration in their analysis of city finances.

Without having full knowledge of the team of investors and the financial capability of the property owners, a level of uncertainty inherently exists that makes a \$106.9 million request difficult to fully embrace.

Further, a project of this type that is scheduled to be “phased in” over twelve years naturally presents an opportunity to limit potential liability by approving TIF authorization in coordination with the multiple phases of the project. In the Harbor Point project, the developer in its Tax Increment Finance Application has specifically set forth an Infrastructure Phasing Plan that provides a great opportunity for the development of a fiscally prudent approach that will enable the project to move into the development phase but provide a reasonable level of financial protection to the City of Baltimore.

Phase I consists of the already constructed 277,035 square foot Thames Street Wharf office building, a new 596,604 square foot office building 88% pre-leased to Exelon that includes 51,542 square feet of retail space and 352,650 square feet of residential apartments, 50,000 square feet of retail and a 1100-car parking garage. The Exelon Building is scheduled to start construction in the fall of 2013 with a build out of Exelon’s interior space planned for the second quarter of 2015. Total build out of all of Phase I would be completed by year end 2015.



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The publicly supported TIF improvements identified in Phase I will include the construction of Dock Street, Point Street, a portion of Wills Street, a four-lane Central Avenue Bridge, the Central Plaza and streetscape improvements along with a \$2,000,000 contribution to the Living Classrooms Foundation to build a new school building.

The developer has stated that the costs of the infrastructure projects for Phase I as follows:

Dock Street	\$ 5,188,602
Point Street	643,382
Central Avenue Bridge	10,400,000
Wills Street	1,639,512
Central Square	15,855,006
Crossroads School	2,000,000
Subtotal	\$35,726,502

In approving any TIF, in particular one of this magnitude, considerable scrutiny must be used to ensure that the projects being funded are of a true public nature and are not directly beneficial or inuring to the private property owner. The TIF proceeds should fund the public infrastructure needed but should not be used to fund enhancements to the private property that do not rise to the level of "true" public benefits.

In regard to the proposal before the City Council, the Executive Committee of the Greater Baltimore Committee has serious reservations about a number of items listed in the Infrastructure Phasing Plan. In Phase I, although the GBC supports the importance of education and the quality of school facilities, it seems inappropriate to use TIF proceeds to fund the construction of a new "charter" school in the Harbor Point community. While the GBC does not dispute the need or importance of the school, the \$2 million allocated should not be part of a TIF but should be funded by the developer or other interested parties individually.

The Executive Committee of the Greater Baltimore Committee strongly recommends that the City Council approve TIF financing for the infrastructure investments contained in Phase I with the exception of the \$2,000,000 request for Crossroads School, or a total TIF of \$33,726,502. Approval of Phase I will enable the developer to move forward with the major infrastructure projects on the property and the commercial building that is 88% pre-leased. As Phase I is under construction, ample time exists for the developer and the City of Baltimore to consider future TIF needs on the Harbor Point property. Additionally, the initial construction of Phase I will likely bring about a more formalized development plan for the remaining portions of the property and additional private sector investment.



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The approval of a TIF in the amount of \$33,726,502, while not ideally what the developer is looking for, is a reasonable approach to a very challenging public policy debate. It will provide a level of bond issuance that is marketable, allow the construction of Phase I, and provide a level of fiscal restraint needed to protect the City of Baltimore's revenue structure.

An analysis of Phase II infrastructure projects includes the construction of Block Street, the completion of Wills Street to the south, the Caroline pocket park as well as a portion of the public promenade, for a subtotal of \$12,049,449. Phase III infrastructure projects include the completion of the promenade, West Park, Point Park, Waterfront Park and Transit Piers totaling \$59,155,325.

On first blush it would appear that the completion of Block Street and Wills Street are public benefits. However, debate can be made that the inclusion of "pocket parks" could arguably be seen as enhancements or benefits to the private commercial and residential facilities and should fall outside TIF funding. A similar argument can be made regarding the promenade. Although completion of the promenade would be very advantageous to the public and will enjoy public uses, in many situations around the Inner Harbor the promenade was funded exclusively by the private developer and not through a TIF mechanism.

Although these matters are deserving of considerable thought and debate, the GBC feels that focusing on Phase II and III is not needed at this time.

The Executive Committee of the Board of Directors of the Greater Baltimore Committee thank you for your consideration of its position.