

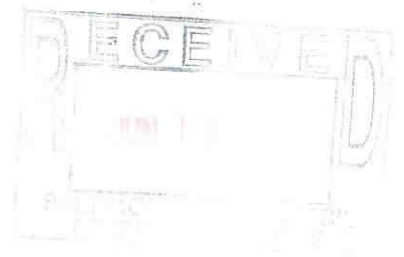
MEMORANDUM

TO: Honorable President and Members of the City Council  
Attention: Karen Randle, Executive Secretary

FROM: Brenda McKenzie, President and CEO *Bone*

DATE: June 18, 2013

SUBJECT: City Council Bill No. 13-0234  
Harbor Point Development – Bond Ordinance



The Baltimore Development Corporation (BDC) strongly supports and is pleased to sponsor City Council Bill No. 13-0234, Harbor Point Development – Bond Ordinance, and respectfully requests favorable City Council consideration of the same. Bill No. 13-0234 is one of three pieces of legislation that, if approved, will establish Tax Increment Financing (or “TIF”) related the Harbor Point Development Project.

Effect of Legislation

If approved, City Council Bill No. 13-0234 will, among other things: (1) authorize the City, on terms to be approved by the Board of Finance, to issue Special Obligation Bonds, in an amount not to exceed \$125,000,000, for the purpose of financing necessary and critical public infrastructure improvements and costs of bond issuance related to the Harbor Point Development Project (the “Project”); (2) pledge Tax Increment Revenues and Special Tax Revenues (as such terms are defined in the Bill) generated by the Project to the payment of debt service on the Special Obligation Bonds; and (3) authorize the Board of Finance to specify and prescribe the terms of the issuance, sale, and payment of the Special Obligation bonds. The Special Obligation Bonds are also referred to herein as “TIF Bonds.”

Bill No. 13-0234 is part of a package of legislation consisting of three Bills (this bill and two others, as described below) that will form the basis of the City’s ability to establish Tax Increment Financing (or a “TIF”) for Harbor Point in order to finance the construction of approximately \$106,931,276 of public benefit and publicly-owned infrastructure in support of the Harbor Point Project. The infrastructure to be financed will include approximately 9.5 acres of public park space, a half-mile of public promenade, a four-lane public bridge connecting South Central Avenue with the Harbor Point Peninsula, public transit piers, and associated public streets, sidewalks, lighting, and utilities, all as more particularly described below.

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All three Bills were introduced into the City Council simultaneously on June 3, 2013 and have been referred to the Taxation, Finance and Economic Development Committee.

#### Related Legislation

- City Council Bill No. 13-0232, Harbor Point Development District – Amending Ordinance 10-401

This Bill will amend the existing Harbor Point Development District. In December 2010 the City Council approved Ordinance No. 10-401. Ordinance 10-401: (1) established the Harbor Point Development District; and (2) established the Harbor Point Development District Tax Increment Fund. By establishing the Development District in 2010, the City was able to set the taxable Base Value of Harbor Point to January 1, 2009, prior to the development of the Thames Street Wharf Office Building, thereby maximizing the amount of Tax Increment Revenues to be collected in future years. This Bill will amend the existing Harbor Point Development District to include certain properties that were not originally included, and to redesignate certain included properties with new Block and Lot numbers as a result of a subdivision of the development site.

- City Council Bill No. 13-0233—Harbor Point Special Taxing District

This Bill: (1) establishes the Harbor Point Special Taxing District; (2) authorizes the City to levy a special tax on all taxable real and personal property with the Special Taxing District; and (3) pledges any special taxes collected to the payment or reimbursement to the City for debt service on the TIF Bonds. The overall purpose of creating the Special Taxing District is to guarantee the City’s ability repay the holders of TIF bonds in the event and to the extent that the Tax Increment Revenues collected at Harbor Point are insufficient to debt service the TIF Bonds. In this manner and as a result of forming the Special Taxing District, the property owners within the Special Taxing District—in this case the developers of the Harbor Point property—are financially liable to the City to guarantee the City’s ability to make bond payments to bond holders.

#### Related Planned Unit Development Legislation

- City Council Bill No. 13-0195—Planned Unit Development Designation—Harbor Point

This Bill establishes a Planned Unit Development (or “PUD”) at Harbor Point. The PUD authorizes the owner of the property to develop the site as an approximately 3,020,000 square-foot mixed-use neighborhood. The PUD establishes the land use, density, building heights, and parking requirements that will allow for the development of the Harbor Point Project. The PUD allows for a mix of land uses to be constructed within certain development parcels within the PUD, including office, residential, retail, and hotel. The PUD establishes a requirement that approximately 9.5 acres of public open space is to be developed at the site and an approximately half-mile of public promenade be constructed. Bill No. 13-0195 was introduced into the City Council on February 11,

2013 and was referred to the Land Use and Transportation Committee. The Bill was voted out of Committee favorably on May 22, 2013 and was approved by the City Council on June 17, 2013.

#### City's Authority to Create a TIF

The City of Baltimore's authority to create a TIF is granted to it by Article II, Section 62 of the Baltimore City Charter. The Charter states that in order to establish a TIF and issue bonds the City must, among other things: (1) designate by ordinance an area or areas within the City of Baltimore as a "Development District"; and (2) enact an ordinance which: (i) specifies and describes the proposed undertaking, and (ii) specifies the maximum principal amount of bonds to be issued.

Section 62A of the Charter authorizes the City to create a Special Taxing District and levy ad valorem or special taxes.

Section 62(c) of the Charter specifies what the proceeds of TIF bonds can be used for and states that:

All proceeds received from any bonds issued and sold pursuant to this section shall be applied solely for:

- (1) The cost of purchasing, leasing, condemning, or otherwise acquiring land or other property, or an interest in them, in the designated development district area or as necessary for a right-of-way or other easement to or from the development district area;
- (2) Site removal;
- (3) Surveys and studies;
- (4) Relocation of businesses or residents;
- (5) Installation of utilities, construction of parks and playgrounds, and other necessary improvements including streets and roads to, from, or within the development district, lighting, and other facilities;
- (6) Construction or rehabilitation of buildings provided that such buildings:
  - i. Are to be devoted to a governmental use or purpose;
  - ii. Are abandoned property;
  - iii. Are distressed property; or
  - iv. Will provide units of affordable housing;
- (7) Reserves and capitalized interest on the bonds;
- (8) Necessary costs of issuing bonds; and
- (9) Structured and surface parking facilities that are:
  - i. Publicly owned; or
  - ii. Privately owned but serve a public purpose; and
  - iii. Payment of the principal and interest on loans, money advanced, or indebtedness incurred by the Mayor and City Council of Baltimore for any of the purposes set out in this section.

City laws and policies require that the improvements to be financed with TIF Bond proceeds be public, and either publicly owned or publicly accessible. In addition, if the TIF Bonds are to be tax-exempt, Federal rules and regulations require the improvements to pass strict public use tests.

According to the City Law Department and the City's outside Bond Counsel, all of the public infrastructure improvements proposed to be TIF Bond-financed at Harbor Point comply with the foregoing restrictions on the use of TIF Bond proceeds.

#### Previous City TIFs

To date, the City has created 12 TIFs, the majority of which are in Baltimore's neighborhoods, to finance critical public infrastructure to support private development projects, including TIFs at:

1. Mondawmin Mall
2. Frankford Estates
3. Belvedere Square
4. Clipper Mill
5. Charles Village
6. North Locust Point
7. Harborview (for public promenade)
8. West Baltimore (Rosemont)
9. Westport
10. Harbor Point (Development District only)
11. East Baltimore Development Initiative (EBDI)
12. Convention Center Hotel

#### The City's Process for Evaluating and Approving a TIF

The first step in analyzing a TIF is a typically a formal request from a developer to BDC to establish a TIF. Upon receipt, BDC carefully analyzes the TIF request in close coordination with the City's Department of Finance, Law Department, and with the involvement of the City's outside Bond Counsel and outside Financial Advisor.

Upon review and if warranted, BDC presents the TIF request to a committee of its Board of Directors known as the Project Review and Oversight Committee with an appropriate recommendation. If the Committee votes to support the TIF request, the request is then considered by BDC's full Board of Directors. If approved by BDC's Board of Directors, a formal recommendation is then forwarded to the Mayor. If approved by the Mayor, the Mayor authorizes the sponsoring agency to make a formal application to the Board of Finance.

The Board of Finance of the City of Baltimore has established a Tax Increment Financing Policy and Project Submission Requirements dated January 23, 2012 which stipulates the requirements for a developer to apply for a TIF and the measures by which a TIF request will be evaluated. The Board of Finance requires that a City sponsoring agency, in this case the Baltimore Development Corporation, in coordination with the City's Financial Advisor (MuniCap, Inc.) and bond counsel (McGuire Woods LLP, and the City Law Department) submit a formal TIF Application to the Board of Finance.

The Board of Finance then reviews the Sponsoring Agency's TIF Application and votes to grant conceptual approval of the TIF and authorization to introduce City Council legislation. On May 20, 2013, the Board of Finance approved BDC's TIF Application for Harbor Point.

Economic Development Impact of Legislation

Bill No.13-0234 and its companion legislation Bills No. 13-0232 and 13-0233 and related PUD legislation Bill No. 13-0195 will authorize the City to issue Special Obligation TIF Bonds and establish the land use framework for the Harbor Point Development Project, respectively.

Project Description -- The Harbor Point Development Project is a proposed approximately 3-million square foot master-planned mixed-use community being built on the 27-acre Harbor Point Peninsula located south of Harbor East and west of Fells Point. The Project will be built in phases over approximately 12 years and consists of nine planned buildings and related public infrastructure that will be TIF financed. Total Project represents an approximately \$1,027,706,152 investment in the City of Baltimore, consisting of \$920,774,876 of private development costs to be supplemented by approximately \$106,931,276 million of public infrastructure costs. The Project is being developed by Harbor Point Development Holdings, LLC and will be managed by Beatty Development Group, LLC. The project will generally consist of the following components:

Overall Development Program:

Office:	1,638,778 SF
Residential:	913,650 SF; 914 Apartments
Retail:	195,572 SF
Hotel/Condos:	<u>222,000 SF</u>
	2,970,000 SF
Parking:	1,238,675 SF; 3,300 Spaces

The Project will consist of nine privately constructed buildings. The building program and timeline for construction is estimated as follows:

<u>Building</u>	<u>Use</u>	<u>Est. Completion</u>	<u>SF</u>
7	Thames Street Wharf Office	Completed 2010	277,000
1	Exelon	2015	656,450
9	Apartments, Retail, Parking	2015	227,375
4	Office, Retail	2017	234,000
8	Apartments, Retail	2017	258,200
5	Office, Parking	2018	225,000
6	Hotel/Residential, Retail	2020	238,350
3	Office, Retail, Parking	2021	263,000
2	Apartments, Retail, Parking	2022	<u>515,000</u>
			Total: 2,970,000

The development program and timing of construction is subject to change based on market conditions. It is anticipated that Harbor Point will be constructed in three phases over the next 12 years. The first building, the Thames Street Wharf Office Building, was completed in 2010 at a total cost of \$107 million.

The second building to be constructed will be the planned regional headquarters of the Exelon Corporation, consisting of a new approximately 23-story LEED certified high-rise project which will include an approximately 70,000 square-foot trading floor, an office tower, and ground level retail. A new half-acre public park and plaza will be built at the same time as the Exelon building, in addition to a landscaped public promenade along with new roads, utilities, and lighting, and a new public pedestrian and vehicular Central Avenue Bridge and promenade extending Central Avenue on to Harbor Point.

TIF Financed Infrastructure – If approved, the TIF legislation will authorize the City to issue TIF Bonds, on terms to be determined by the Board of Finance, in order to construct the following public infrastructure improvements:

The infrastructure costs pursuant to the TIF request are as follows:

<u>Requested Infrastructure Financing</u>	<u>Estimated Cost</u>
Dock Street	\$ 5,188,602
Point Street	643,382
Central Avenue Bridge	10,400,000 (Four Lane)
Wills Street	1,639,512
Block Street	2,886,328
Wills Street Extension	2,959,575
West Park / Infrastructure	3,276,197
Point Park / Infrastructure	34,162,224
Central Square / Infrastructure	15,855,006
Waterfront Park / Infrastructure	5,042,932
Caroline Park / Infrastructure	794,889
Promenade / Infrastructure	21,634,628
Transit Piers	448,001
School Improvements	2,000,000
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	\$ 106,931,276

It is anticipated that the public infrastructure would constructed and financed in three phases to coincide with three phases of private development as illustrated in the table below:

<i>Infrastructure</i>	<i>Phase I</i>	<i>Phase II</i>	<i>Phase III</i>
<b>Bonds Issued</b>	<b>Fall 2013</b>	<b>July 2016</b>	<b>July 2019</b>
Dock St.	\$5,188,602		
Point St.	643,382		
Cent. Ave. Bridge	10,400,000		
Wills St.	1,639,512		
Central Square	15,855,006		
Crossroads School	2,000,000		
Block St.		2,886,328	
Wills St. Extension		2,959,575	
Caroline Park		794,889	
Promenade		5,408,657	16,225,971
West Park			3,276,197
Point Park			34,162,224
Waterfront Park			5,042,932
Transit Piers			448,001
Subtotal	35,726,502	12,049,449	59,155,325
Grand Total			106,931,276

The total cost of TIF financing for the above listed improvements is estimated as follows:

Construction Costs:	\$106,931,276
Issuance Costs:	\$ 3,690,424
Reserve Fund:	\$ 12,291,300
<b>Total Bond Amount:</b>	<b>\$122,913,000</b>

The Bonds are anticipated to be issued initially directly to the Developer as a private placement issuance and will be remarketed to public bond purchasers once significant components of the Project have been completed and Tax Increment Revenues have been received. Conceivably, the bonds will be issued in three series each to be repaid and fully amortized over a 30-year period.

Enterprise Zone and Brownfields Tax Credits – The Net Tax Increment Surplus includes the effect of Enterprise Zone and Brownfields Tax Credits which the Developer is entitled to by-right, in the estimated amount of \$88,420,512 and \$24,477,986, respectively. Because of the effect of the tax credits, it is anticipated the Developer will be required to make Special Tax Payments to the City of \$23,797,446 over the first ten years of the TIF which function as a reimbursement of a portion of these tax credits, and provides the funds necessary, when combined with collected Tax Increment Revenues, for the City to make all scheduled principal and interest payments to bondholders. The net cost to the City of the Tax Credits is estimated as follows:

Enterprise Zone Tax Credit:	(\$88,420,512)
Brownfield Tax Credit:	(\$24,477,986)

City Brownfield Payment To State:	(\$ 3,878,268)
State EZ Reimbursement:	\$ 44,210,256 – Currently 50% of cost of credit
Special Tax Payments From Developer:	<u>\$ 23,797,446</u>
Total Cost of Tax Credits to City:	(\$48,769,064)

City Benefits of the Project – The Harbor Point project will produce significant new tax revenues for the City and substantial employment and residential growth.

The pre-development assessed value of the property is estimated at \$10,764,500 and the City collected pre-development property taxes in the amount of approximately \$244,116 per year. At Project completion, the property is expected to be assessed at over \$1.8 Billion and the City anticipates collecting on average \$19.6 Million per year at full build-out, and after netting out the costs of TIF financing, applicable tax credits, and City costs of services. No other current project in the City promises these types of revenue gains. The following revenues are anticipated over a 30-year period:

Estimated New Tax Revenues\*:

New surplus property tax revenue**	\$ 682,634,636
New business personal property tax revenue	53,065,468
Enterprise Zone tax credit State reimbursement	44,191,862
New hotel tax revenues	57,272,422
New utility tax revenues	21,259,355
New City income tax revenues	343,462,168
Recordation tax revenues	7,182,267
Additional new City revenues	<u>44,408,769</u>
Total new City revenues	1,012,177,594

City Costs\*:

State brownfield tax payment	(\$ 3,878,268)
City costs (police, fire, maintenance, repairs)	<u>(\$ 419,581,482)</u>

Net new fiscal gain in City revenue	\$ 588,717,844
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**Average new City revenue per year (30 yrs.) \$ 19,623,928**

\*Based on analysis conducted by the City's independent Financial Advisor, MuniCap, Inc. dated May 9, 2013.

\*\*This figure includes \$88,383,724 of Enterprise Zone tax credits and \$24,469,947 of Brownfields tax credits on the private buildings at Harbor Point.

New Jobs

- Creates a significant number of construction-related and permanent jobs.
- An estimated 7,175 construction jobs.
- An estimated 6,611 permanent jobs.
- An estimated 2,547 indirect jobs.



### New Residents

- Increases the City's residential population furthering the Mayor's goal of attracting 10,000 new households to the City of Baltimore.
- It is anticipated that the project will have approximately 2,070 residents living in the Harbor Point neighborhood, a significant number of which will be new to the City.

### New Taxes and Profit Sharing

- Prior to development of the Harbor Point project the City has been collecting approximately \$244,000 per year in property tax revenue from the site.
- After development of Harbor Point the City anticipates collecting approximately \$19.6 Million per year on average in new tax revenues generated directly by the project.
- Sustains and grows the City's tax base through increased property and other related taxes and revenues that total approximately \$589 Million in net fiscal increase over 30 years, after all costs of financing and City services are accounted for.
- The City will receive profit sharing payments from the Developer of 15% of all net revenue in excess of a 20% return on investment subject to the approval of the Board of Estimates.

### New Public Parks

- 9.5 acres of new passive and active public park land providing enhanced access to the City's waterfront for all City residents.
- A half-mile of new public promenade connecting Fells Point with Harbor East, essentially completing the City's waterfront promenade system from Canton to Locust Point.

### Eliminates Blight and Advances a Smart Growth Agenda

- Reclaims a formerly industrial brownfield site for mixed-use development.
- Eliminates a significant piece of vacant property on the City's waterfront.
- The project is a sustainable transit dependent development that will be built to LEED silver standards or higher.
- Harbor Point will make Baltimore a better place to live, work, and play through the creation of a vibrant new neighborhood that is consistent with the City's land use and economic development plans and policies of supporting high-density, transit dependent, sustainable development that produce significant jobs and taxes for the City.
- Creates new and diversified office, residential, and retail options for City residents.

### Better Schools

- Expands and enhances an existing public school (the Crossroads Academy public charter school) which will construct new educational facilities partly as a result of TIF assistance.

cc: Kaliope Parthemos  
Angela Gibson