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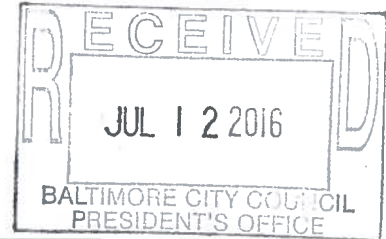
MEMORANDUM

TO: Honorable President and Members of the City Council  
Attention: Natawna Austin, Executive Secretary

FROM: William H. Cole, President and CEO 

DATE: May 23, 2016

SUBJECT: City Council Bill No. 16-0670  
Port Covington – Bond Ordinance



The Baltimore Development Corporation (BDC) strongly supports and is pleased to sponsor City Council Bill No. 16-0670, Port Covington — Bond Ordinance. Bill No. 16-0670 is one of three pieces of legislation that, if approved, will establish Tax Increment Financing (or “TIF”) related to the redevelopment of Port Covington.

Retention of Existing Employer

The Port Covington Project will provide expansion space for a rapidly growing Baltimore company, Under Armour (UA). With nearly 2,000 employees in Baltimore presently, UA has outgrown its existing world headquarters in Locust Point and is now leasing office space in various other locations. Without a larger campus, it is likely that UA will have to look elsewhere to meet its growth needs.

Effect of Legislation

City Council Bill No. 16-0670 will, among other things: (1) authorize the City, on terms to be approved by the Board of Finance, to issue Special Obligation Bonds through a State Issuer, in an amount not to exceed \$660,000,000 to fund public infrastructure improvements associated with the redevelopment of Port Covington; (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.

Related Legislation

Bill No. 16-0670 is part of a package of legislation consisting of this bill and two additional Bills that allow the City to establish TIF at Port Covington in order to finance the construction of public infrastructure in support of the Port Covington Project. The infrastructure to be financed will include approximately 41 acres of public parks, piers and plazas; bike, pedestrian and transit improvements; site work; and associated public streets, alleys, sidewalks, lighting, and utilities.

Fav w/ comments

- City Council Bill No. 16-0669, Port Covington — Development District  
This Bill will designate a “development district” to be known as the “Port Covington Development District” and determine various matters in connection with the establishment of the Development District.
- City Council Bill No. 16-0671, Port Covington — Special Taxing District  
This Bill will create the Port Covington Special Taxing District and authorize the City to levy Special Taxes and determine various matters in connection with establishment of the special taxing district. The purpose of creating the Special Taxing District is to guarantee the City’s ability to repay the holders of TIF bonds in the event and to the extent that the Tax Increment Revenues collected are insufficient to service the debt on the TIF Bonds. In this manner and as a result of forming the Special Taxing District, the property owners within the Special Taxing District are financially liable to the City to guarantee the City’s ability to make payments to bond holders.

Project Description

Port Covington is a 260-acre master-planned mixed-use community proposed by Sagamore Development. The project is comprised of approximately 15 million square feet of new construction, including office, retail, residential, hotel, parking, and manufacturing space to be developed in phases over approximately 25 years. Upon completion, it will add approximately 42 newly developed city blocks and include 41 acres of public open space. The total project costs are estimated to be \$6.9 billion. The project will generally consist of the following components:

<u>Overall Development Program:</u>	
Office:	5.5 million SF
Residential:	7,500 units
Retail:	1.5 million SF
Hotel:	200 + rooms
Manufacturing/Maker Space:	500,000 SF
Parking:	10,000 spaces

TIF Financed Infrastructure

If approved, the TIF legislation will authorize the City to issue TIF bonds through a State Issuer, on terms to be determined by the Board of Finance, in order to construct the following public infrastructure improvements:

<u>Requested Infrastructure Financing</u>	<u>Estimated Cost</u>
Parks	\$ 93,662,000
Piers	47,148,000
Plazas	20,105,000
Site Circulator	10,729,000
Site Work	63,684,000
Streets, Alleys, and Utilities	279,318,500
Pedestrian/Bike Paths	<u>20,148,500</u>
	\$ 534,795,000

It is anticipated that the public infrastructure would be financed in four series as illustrated in the following table.

<b>Public Improvements</b>	<b>Series A</b>	<b>Series B</b>	<b>Series C</b>	<b>Series D</b>
<i>Bonds Issued</i>	<i>June 2017</i>	<i>June 2018</i>	<i>June 2023</i>	<i>June 2028</i>
Parks	\$19,663,000	\$9,402,000	\$56,010,000	\$8,587,000
Piers	\$26,055,000	\$21,093,000		
Plazas	\$18,623,000	\$1,482,000		
Site Circulator		\$10,729,000		
Site Work		\$14,308,000	\$10,448,000	\$38,928,000
Streets, Alleys and Utilities		\$131,112,000	\$99,879,500	\$48,327,000
Pedestrian/Bike Paths		\$4,811,500	\$15,337,000	
<i>Total Public Improvement Costs</i>	<i>\$64,341,000</i>	<i>\$192,937,500</i>	<i>\$181,674,500</i>	<i>\$95,842,000</i>
<i>Less: Other Sources of Funds</i>	<i>\$ (15,341,000)</i>	<i>\$ (21,937,500)</i>	<i>\$ (41,674,500)</i>	<i>\$ 78,953,000</i>
<b>Total Public Improvement Costs Financed by the Bonds</b>	<b>\$49,000,000</b>	<b>\$171,000,000</b>	<b>\$140,000,000</b>	<b>\$174,795,000</b>
<b>Grand Total</b>				<b>\$534,795,000</b>

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

Construction Costs:	\$534,795,000
Capitalized Interest:	\$ 49,683,697
Issuance Costs/Underwriter's Discount:	\$ 8,293,185
Reserve Fund:	\$ 65,863,700
Rounding:	\$ 1,418
<b>Total Bond Proceeds:</b>	<b>\$658,637,000</b>

#### Enterprise Zone and Brownfields Tax Credits

The net tax increment revenues account the effect of the Enterprise Zone and Brownfields Tax Credits, which the Developer is entitled to by-right. It is anticipated the Developer will make Special Tax payments to the City of \$326,006,797 over the life of the TIF to help ensure there are sufficient funds for the City to make all scheduled principal and interest payments to bondholders. This figure includes an estimated \$34,158,544 as a commitment by the Developer to pay the difference between the City's Enterprise Zone Tax Credit reimbursement from the State and the City's payment to the Maryland Economic Development Assistance Fund resulting from the Brownfield Tax Credit. The net impact to the City of the tax credits is estimated below:

Enterprise Zone Tax Credit:	(\$313,298,890)
Brownfield Tax Credit:	(\$445,218,641)
Targeted Homeowner Tax Credit:	(\$ 1,899,264)
City Brownfield Payment to State:	(\$190,807,989)
State Enterprise Zone Reimbursement:	\$ 156,649,445
Special Tax Payments from Developer:	\$ 34,158,544
Net Impact of Tax Credits to City:	(\$760,416,795)

## TIF Evaluation

BDC carefully analyzed the request for TIF at Port Covington 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.

MuniCap, Inc., a Columbia-based firm specializing in tax increment financing and financial analysis, performed a "But-For" test and fiscal impact analysis of the proposal. The analysis has been reviewed by BDC Staff and the BDC Board of Directors and it was determined that the TIF was an appropriate financing mechanism for this project, that it passes the "But-For" test, and that expected revenues generated by the development exceed the corresponding costs to Baltimore City. A formal recommendation was forwarded to the Mayor who, thereafter, authorized the BDC to submit a formal application to the Board of Finance. The Board of Finance reviewed the TIF Application and voted to grant conceptual approval of the TIF on April 25, 2016 and authorized the introduction of City Council legislation on May 9, 2016.

## City Benefits of the Project

### *Taxes*

The Port Covington project will produce significant new tax revenues for the City. The current assessed value of the property within the proposed TIF district is estimated at of approximately \$72.8 million, accounting for approximately \$1.6 million in annual base property taxes. At project completion, the property is expected to be assessed at \$2,608,900,706 and the City anticipates collecting an average \$41,171,566 per year over the course of the 41 years of the TIF after netting out TIF financing costs, applicable tax credits, and costs of City services.

#### Estimated New Tax Revenues\*:

Net real property tax increment revenues**	\$ 1,548,508,342
New personal property tax revenues	\$ 170,737,070
Enterprise Zone Tax Credit reimbursement revenues	\$ 156,649,445
New hotel tax revenues	\$ 85,845,000
New utility tax revenues	\$ 69,366,170
New City income tax revenues	\$ 1,638,564,556
Transfer and recordation tax revenues	\$ 99,260,696
Additional new City revenues	\$ 153,357,685

#### City Costs\*:

State brownfield payment	(\$ 190,807,989)
City costs (police, fire, maintenance, repairs, etc.)	<u>(\$1,964,964,276)</u>

Net new fiscal gain in City revenue (41 yrs.)	\$ 1,766,516,699
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<b>Average new City revenue per year (41 yrs.)</b>	<b>\$ 41,171,566</b>
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\*Based on analysis conducted by the City's independent Financial Advisor, MuniCap, Inc. dated May 19, 2016.

\*\*This figure includes \$313,298,890 in Enterprise Zone tax credits and \$445,218,641 in Brownfields tax credits

### *New Jobs*

The redevelopment of Port Covington will produce substantial employment growth, including:

- An estimated 12,073 new residents, a significant number of which will be new to the City
- An estimated 15,219 direct and 8,775 indirect Full-Time-Equivalent construction jobs
- An estimated 25,006 direct and 9,968 indirect Full-Time-Equivalent permanent jobs upon completion
- Estimated average annual wage is \$80,000 for construction jobs and \$68,000 for permanent jobs

### *Business Retention and Expansion*

A major component of the project is a new 50-acre campus to house Under Armour's Global Headquarters. One of the city's largest and fastest-growing companies, Under Armour employs approximately 2,000 people in the City and plans to grow to as many as 10,000 employees by 2030. As a result of the company's rapid expansion, Under Armour is quickly outgrowing its current office space at Tide Point and has proposed to build a new Global Headquarters campus in Port Covington to allow the company to continue to grow within Baltimore City. While bond proceeds will not be utilized to build private infrastructure on the campus, the TIF will support critical public infrastructure that is needed to ensure workers have adequate transportation access to and from the new Under Armour campus and other employment centers in Port Covington.

### *New Residents*

At full build-out, Port Covington is estimated to be home to an estimated 12,073 residents, a significant number of which will be new to city, which will further the Mayor's goal of attracting 10,000 new households to the City of Baltimore.

### *New Public Parks*

Port Covington will include 41 acres of public parks, which will double the amount of existing park land on-site and expand public access to the waterfront.

Cc: Colin Tarbert  
Angela Gibson