

MEMORANDUM

**Minutes of the Meeting of the BDC Project Review and Oversight Committee
March 15, 2016**

TO: BDC Board of Directors

FROM: William H. Cole, President & CEO

DATE: March 21, 2016

SUBJECT: Project Review and Oversight Committee Minutes – March 15, 2016

At 12:17 p.m., the Project Committee passed a motion (moved, seconded, and approved unanimously) to close the meeting under that State of Maryland “Open Meetings” Act, Section 10-508 a (6) (current section 3-305(b)(6)) which states that public meeting may be closed in order “to consider the marketing of public securities.” Attached is a copy of the Written Statement for Closing a Meeting under the Open Meetings Act.

Project Committee/Board members attending included: BDC Board Chairman Arnold Williams (serving as committee Chair for this project), Project Committee Chair Deborah Devan, Colin Tarbert, Henry Raymond, Brian Tracey, Christy Wyskiel, Jeff Fraley, Mike Walton, and Clinton Daly (by phone). Consultants to the Committee in attendance included Steve Kraus (Department of Finance), Alan Cason (McGuire Woods, The City’s TIF Bond Counsel), Keenan Rice (Municipal), and Lindsay Banner (Municipal).

The BDC staff in attendance included: President & CEO, William H. Cole, Kimberly Clark, Nancy Jordan-Howard, Will Beckford, Dan Taylor, Susan Yum, Patrick Terranova, Larysa Salamacha, Karl Bradley, Sally Costello and Renee West.

The Committee discussed the marketing of public securities in respect to one project:

1. Port Covington TIF Request

Port Covington TIF Request

TIF Process, Procedure and Costs

Project Committee members requested clarification about whether this TIF request is similar to other TIF requests, such as the West Baltimore TIF and North Locust Point TIF. BDC staff

advised that the West Baltimore TIF covered not only the Casino area but also covered the acquisition of the ACME Building. Staff further explained that Casino Impact Fund and the formation of a local Development Council were rooted in State requirements for gaming facilities, not the TIF. Staff also advised that the North Locust Point TIF is structured as a Pay-Go TIF and that even after it was expanded in 2012 to include Key Highway and McComas Street, to date only \$3 million in bonds have been issued.

The Committee inquired as to whether there would be a concern with overlapping TIF districts, and whether there are improvements included in the TIF that are outside of the proposed development area. Alan Cason stated that he currently does not see any complications as long as the improvements consist of roads to and from the Port Covington project. Keenan Rice added that there is still some review to be done to vet some items, but that currently everything seems to fit into the charter.

Deborah Devan asked for an explanation of why the TIF amount increased over a few week period from \$400 million to \$535 million. BDC staff explained that this is due in part to the fact that there were some improvements added, and that BDC has informed Sagamore that no more items would be considered at this point. Keenan Rice added that there were also items submitted for inclusion in the TIF that were not accepted, so the TIF amount does not include 100 percent of what the Developer requested. When Muncipal refined the original TIF analysis, there was an additional TIF capacity. Project Committee Deborah Devan requested a list of those items and Rice stated that he would make that information available to the Project Committee and Board.

Among the specific projects discussed was the addition of an on-site circulator, which has been presented as a rail-based system. Alan Cason explained that the transportation component of the plan only includes infrastructure, and excludes rolling stock/moving equipment.

Brian Tracey asked how the committee might determine which projects are “must have” versus “would like to have.” When considering whether to give TIFs. Keenan Rice stated that Brian Tracey’s question goes back to three important questions to be answered in the marketing of public securities analysis: the adequacy of the costs, the financial legitimacy of those items, and the policy decision of whether the City wants to prioritize this project and support the TIF.

Deborah Devan inquired as to whether the Developer looked in to other sources of funding such as National Park Service and Commerce for certain open space improvements such as the archeological pier, suggesting the City should consider negotiating certain costs with the Developer, thereby impairing the market for the TIFs. President Cole responded that the Developer is undergoing an exhaustive search for a variety of funding sources. Regarding State funding for open space, President Cole explained that Maggie McIntosh has worked at the State level to help secure funds for parks/recreation uses in the City and cautioned that we want to be careful not to take away from or compete for those limited funds that could otherwise go to underserved neighborhoods.

Colin Tarbert added that it is important to ensure there is adequate bond capacity available to complete the proposed work and avoid a situation whereby the City ends up negotiating against itself. A shortfall could result in certain improvements not being constructed or the need to dip

into the General Fund in order for the City to complete the project. Harbor Point was referenced as an example where there are risks to not having enough TIF capacity. Clinton Daly added that it should be stressed that the Developer is funding a number of public infrastructure projects from private sources as well.

BDC Board Chair Arnold Williams stated that it is the role of BDC to look at the return on investment – both for the City and the Developer. Williams stated that if the project does not meet the financial tests than the City should not move forward, but suggested that having the four (4) tranches of bond funding holds the Developer accountable. It is at the time of bond issuance where the City looks at the proposed expenditures more closely so that we move forward in a judicious manner. BDC staff concurred that the role of BDC is to determine whether the project merits public financing.

The committee also raised the question as to what happens in the event that there is not sufficient cash flow in order to allow for sufficient repayment of the bonds. Keenan Rice explained that special taxes will be levied at 110% debt coverage in order to address any shortfall and that the legal authority is in place to collect such taxes. Alan Cason added that in the event there is not enough vertical development built to support the special tax, then there is a lien on the property and the funds could be collected in the foreclosure process if necessary. Keenan Rice stated that since the vertical development serves as collateral, the developer's asset is at risk. The special taxes will only be a fraction of the value of the collateral.

Project Returns

In response to the Committee's expressed concern over the back-ended timing of the City returns, Tracy asked if the Developer returns are similarly back-ended, suggesting the City's back-ended returns could be justifiable if both sets of returns follow a similar trajectory. Keenan Rice explained that Municap is assessing the impact of the back-ended returns to the City, along with the reasonableness of the Developer's assumptions. Colin Tarbert added that the high upfront investment required to construct horizontal infrastructure for such a large-scale project affects the drawn-out returns for the City. In response to the question as to whether City returns can be advanced, Keenan Rice explained that Municap is looking into whether some of the improvements can be delayed to allow for the fund to build up more quickly. He further asserted that the long development period makes the analysis more complex. Christy Wyskiel suggested that evaluating the project based on the IRR to the Developer and the City should guide the committee's review. Keenan Rice agreed with the importance of analyzing the project from a standpoint of returns and how they relate to the bond issuance schedule.

City Benefits/Impacts

In response to the question of profit sharing, it was explained that while there will be a general reference to profit sharing in the TIF legislation, there will be specific language addressing the terms of profit-sharing in the bond letter of intent and as a separate document that will be attached to the Developer's Agreement in advance of the bonds' issuance. BDC will be involved in negotiating the profit sharing and confirmed that the documents will go to both the Board of

Finance and Board of Estimates for approval. BDC staff will advise the Board about the process and approvals.

Michael Walton reiterated the importance for the committee to focus on the questions related to how the project positively impacts the City and what kind of message we send about doing business in the City. Michael Walton further asserted that he believes the project will bring other investments to the City. Brian Tracey stated that just as important is the question of what investment is foregone if the project is not able to move forward. Christy Wyskiel added that it is important for the City to improve its reputation in terms of being a friendly environment for business.

Deborah Devan asked if there is an impact on the education funding (pending legislation). President Cole stated that the Developer knows that if the legislation does not pass, bond issuances will not move forward.

Keenan Rice stated that it is important to look at all the public benefits. Policy requires that BDC make a recommendation on the TIF because they believe it will have significant economic development benefits to the City.

When asked how it completes its analysis, Municap stated that it uses IMPLAN, a state-of-the-art model to evaluate the impact of the investment. Keenan Rice stated that the ratio of TIF funding to other investment dollars is 1 to 1.89 on the horizontal development and 1 to 6.56 for the combined development. By comparison, the developer's calculated ratio for the combined development is 1 to 10. When asked about the difference between Municap's numbers and the developer's numbers, Keenan Rice explained that the Developer does not include the value of the Enterprise Zone and Brownfield tax credits and the City does include these credits.

MOU Agreements

Colin Tarbert informed the group that the Mayor's Office has been working with the Developer on several MOUs including: MBE/WBE participation, local hiring and workforce development, and inclusionary housing. Devan asked whether the developer can buy its way out of the inclusionary housing requirements. BDC staff explained that the agreements can often be structured with some on-site/off-site or rental/purchase requirements. BDC Board Chair Arnold Williams added that the MOU agreements can almost be a double benefit as a carve out for local hiring outside for abutting communities. Colin Tarbert added that they are still flushing out the details of the agreements.

Bond Capacity

In response to questions regarding whether the City has the bond capacity to take on the TIF, Steve Kraus stated that the City can handle additional bond debt and explained that the TIF Agreement is not a debt instrument, but rather an authorization to issue future bonds. Steve Kraus further stated that the City is considering the use of a 3rd party conduit issuer to issue bonds on behalf of the City as a way to mitigate the City's debt exposure. He asserted that the Board of Finance will examine whether the TIF will impact the City's bond rating, that the

City's bond rating will be protected at all costs, and that bonds will not be issued if they are determined to have a negative impact. The City will monitor the debt ratio over the life of the project.

In response to questions about the drawdown schedule, Keenan Rice explained that the Developer is looking at how draws may be spaced out in order to push out some of the large draws so that the assessed value of properties in the TIF district can increase earlier and help build up the fund. Muncipal stated that they will evaluate whether the City can pay off the bonds earlier.

Cost Breakdown/Market Analysis

Deborah Devan inquired as to whether absorption and the pace of the vertical development have been considered in the analysis. Devan asked if Muncipal was looking at the condo and retail components of the development. Muncipal stated that they received a market study from the Developer and are evaluating the basis for all of the development components.

In response to the question as to whether a 3rd party developer should be brought in to help vet the costs, President Cole responded that this task is within Muncipal's capacity. Keenan Rice added that Muncipal uses data from Marshall & Swift which is the gold standard for construction estimating. Keenan Rice asserted that Muncipal is very comfortable with their experience in vetting these costs and would advise if further vetting would be required.

Steve Kraus explained that the City would only be approving the "big picture" of the TIF. The current costs are not the final budgets and when the City is looking at actually issuing the bonds there will be contracts in place. This is the time when Muncipal will vet costs to an even deeper level. Keenan Rice added that there will be due diligence at each bond issuance that will be certified by the FCC. The budget information provided by the Developer will be used when issuing the bonds and the Developer must certify that the information is accurate. Henry Raymond explained that there will be many checks and balances along the way, and that bond documents will not be signed for each tranche until there is confirmation that the bonds' repayments can be supported.

Miscellaneous

BDC staff stated that they have reviewed both the South Baltimore Gateway and Middle Branch Master Plans and believe that the Port Covington development plan is responsive to both plans.

The Committee also asked how the Light Rail would connect to the MARC train. BDC staff explained that the Developer's plan shows a rail spur that would connect to Port Covington between stops at Westport and the MARC station at Camden Yards.

Next Steps

The committee discussed the goal of continuing discussion in closed session next meeting and bringing the TIF request to a vote at the conclusion of the next committee meeting.

No matter not authorized under section 3-305(b)(6) of the Open Meetings Act was discussed during the closed session.

Motion to Adjourn

A motion was made to adjourn and the Project Committee passed the motion (moved, seconded, approved unanimously). The meeting was adjourned at 1:56 p.m.

References:

Port Covington, City of Baltimore, Maryland, Municap Projection No. 4 dated March 8, 2016
Port Covington, City of Baltimore, Maryland, Municap Pro Forma Analysis of Full Development dated March 8, 2016.