MEMORANDUM

Meeting Minutes of the BDC Project Review and Oversight Committee
March 21, 2016

TO: BDC Board of Directors

FROM: William H. Cole, President & CEO

DATE: March 28, 2016

SUBJECT: Project Review and Oversight Committee Minutes – March 21, 2016

At 12:19 p.m., the Project Committee passed a motion (moved, seconded, and approved unanimously) to close the meeting under that State of Maryland “Closed Meeting” Act, Section 10-508 a (6) (current Section 3-305(b)(6) of the Open Meetings Act which states that public meetings 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 Chair Arnold Williams (serving as committee Chair for this project), Project Committee Chair Deborah Devan, Colin Tarbert, Brian Tracey, Jeff Fraley, Mike Walton, and Clinton Daly. Consultants to the Committee in attendance included Steve Kraus (Department of Finance), Alan Cason (McGuire Woods, the City’s TIF Bond Counsel), Keenan Rice (Municap), and Lindsay Banner (Municap).

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

No members of the public were present.

The Committee discussed one project:

1. Port Covington TIF Request

Port Covington TIF Request

Developer ’s Returns
Keenan Rice (Municap) reviewed the chart comparing the Developer’s projected revenues and projected expenditures and the impact of revenues and expenditures on the marketing of public securities. Rice stated that while Developer’s returns increase faster than the City’s returns, the City’s returns surpass the Developer’s returns in later years after full vertical build-out of the project and completion of the horizontal infrastructure. Rice stated that he does not believe the deferred returns will affect the City’s bond rating, but could be considered a negative factor.

Bond Issuance

Steve Kraus (Department of Finance) explained that the current draw schedule to finance public infrastructure improvements is over $300 million in the first two years of development, which is a major factor in the deferred City returns as currently calculated. Kraus stated that the Department of Finance is in conversations with the Developer about value engineering and pushing out some of the larger early draws to address this issue.

Kraus further stated that the City is looking into using a conduit issuer for the bonds, which would remove the TIF debt from the City’s books. MEDCO has acted as a conduit issuer in the past and could be a candidate to issue the bonds. The Department of Finance is analyzing how using a conduit issuer will affect the assessable base. While it seems this will be a manageable situation, the Department of Finance will be looking closely at how the bond rating agencies will look at the City’s wealth if a conduit issuer holds the debt. President Cole reiterated that during the time of each issuance, the Board of Finance and Board of Estimates will not approve the issuance of TIF bonds if the City’s bond rating will be negatively affected. Alan Cason (McGuire Woods) further added that it is the Board of Finance that will make the decision as to whether the bond rating will be affected.

In response to Deborah Devan’s request for additional clarification, Kraus stated that the City uses the Governmental Accounting Standards Board (GASB) certified accounting standards to assess the impact of using a third party issuer, and that the liability to the City would be the annual liability of the taxes. Kraus added that incremental property taxes will be shown on the City’s income statements but not as debt. If there is no tax increment, only the payments to the conduit issuer would be shown on the City’s books.

Committee members asked whether the requested TIF would affect local school funding. President Cole stated that the Council President will not support the TIF legislation if the state aid for school funding is negatively impacted. Alan Cason added that a payment obligation in any year is subject to appropriation.

Costs Analysis

Municap in its review of the public securities that would be marketed is continuing to vet the construction costs and detailed cost estimates from Clark Construction. Rice stated that the cost estimates appear reasonable and that before the Board of Finance approves
any bond issuance, the City has a rigorous process with multiple checks which will require that contracts, financing commitments, lease agreements, and final construction costs are in place.

Devan questioned whether the proposed development program is too high-end, specifically referencing the park improvements. Rice stated that this is a financial policy question and that the Developer’s program addresses its targeted millennial market. Tarbert suggested that eliminating specific line items may not be successful in reducing the overall request for TIF proceeds because there are additional infrastructure costs that the Developer could request for inclusion if others are removed. Tarbert stressed the importance of the TIF being sized sufficiently in order to ensure the proposed public infrastructure actually gets built. President Cole further stated that the Developer wanted to request a higher amount in TIF bonds, but that BDC asked the developer to remove items that had been deemed excessive.

Market Study

Rice explained that Municap’s analysis includes a top down/bottom up analysis. The “top down analysis” looks at what the opportunity costs are to the City and the “bottom down analysis” evaluates issues such as absorption and pricing. As it relates to the “top down analysis,” Rice stated that the market study provided by the Developer successfully substantiates the opportunity costs. There will be strong employment growth which will be driven in large part by Under Armour’s development plan which will attract millennials and the highly educated. Further, Rice cited the Nike development and expansion in Portland and added that mixed-use development has been shown to be the most successful program for urban redevelopments. The absorption is based on Under Armour’s development plan, but there is no analysis in the market study explaining the connection between Under Armour’s expansion and the drivers for other uses that the development will include.

City Benefits

Colin Tarbert asked if the 8.66% IRR to the City shown on Municap’s project comparison chart was based on the current draw schedule. Keenan Rice replied that is correct, and explained that while the returns are slightly lower than other recent TIFs, the magnitude of the City benefits are much greater.

Michael Walton also commented on the importance of considering the magnitude of the City benefits and stated that the equity multiplier of the project’s overall City return compared to the size of the TIF appeared quite substantial. Walton expressed interest in how such a measure would compare to other deals. Rice stated that there is an incredibly positive impact to the City and that Municap could follow up to provide more information using additional metrics beyond IRR that demonstrate the relative magnitude of the projects returns to the City.
Brian Tracey asked if Municap could do a separate IRR calculation capturing just the first phase of bond issuances in the event that only the first phase of development is completed. Rice stated that Municap could do that calculation. Walton reiterated that having an anchor tenant secure in Under Armour alleviates the risk level for the project; while the projected IRR may be lower than other deals, the certainty of the City achieving that calculation is greater than what other projects may provide. BDC Chair Arnold Williams further stated that profit sharing will be part of the agreement so that the City can share in the potential upside of the project.

BDC Chair Arnold Williams asked if MuniCap could look at the project compared to the Nike redevelopment in Oregon. Michael Walton noted that this comparison is not quite apples to apples as the site is suburban and more regionalized. Rice noted that MuniCap could provide some detail on Nike’s economic impacts, and stated that it often takes a major employer like Under Armour as an anchor in order to develop such a large-scale, mixed-use development with unique public access to the waterfront.

Developer Use of TIF Net Proceeds – Summary of Changes

BDC staff provided a chart for review by the Project Committee which summarized the changes in each public improvement category of the TIF proceeds for projections 2-4. Deborah Devan asked BDC staff to detail the changes by category.

Additions to the TIF net proceeds included the addition of new parks (including West Shoreline Park), an entertainment district plaza, an on-site circulator, and the CSX tunnel crossing. Other changes included updated costs for the construction of streets, alleys, utilities, and the associated site work required. Devan asked what was driving the new site work category and asked why it included such a high cost. BDC staff explained that earlier projections for streets, alleys, and utilities included costs for site work, while more recent projections have site work listed as its own category. The overall increase in costs is due to the refinement of estimates and the evolution of the project’s street framework during the Developer’s master planning process. When asked about the phasing of site work improvements, BDC staff clarified that Developer’s Phases 1-10 listed in Schedule II of MuniCap’s projections correlate to Bond Series A and B.

BDC staff also noted items that have been removed from the TIF net proceeds due to value engineering and the use of private funds by the Developer, including reduced costs for pier demolition and renovation, along with rescinded requests for off-site infrastructure allowances and funding for a municipal facility.

Project Committee members asked for more details on the changes, which Municap and BDC staff agreed to provide; Lindsay Banner said she would ask for greater detail from the Developer regarding site work costs in particular. Devan also noted that it was refreshing to see that while some costs have been added and refined, the Developer has also removed some costs from the request for TIF proceeds.

Mayor’s Office Initiatives
General Comments/Questions

The Committee asked how the TIF compares to Harbor Point. It was stated that the TIF will be structured similarly with the Developer holding the bonds and the City remarketing them. This will reduce the capitalized interest which is higher than Harbor Point but in-line with other projects (as are the issuance costs). Devan asked whether the parks at Harbor Point were owned by the Developer or the City. Keenan Rice responded that Harbor Point Park is owned by the City and maintained by the Developer. Alan Cason clarified that when the City issues tax-exempt bonds, there is a requirement for public ownership or interest whereby the property is dedicated for public use and has easements. The Under Amour Field at Harbor Point was cited as an example. While the Developer pays for the park, it is still dedicated for public use and the normal permitting process to use the park property still applies.

Tarbert stated that there is a qualitative piece to this review of the TIF request and that this is a conceptual approval. He stated that the further verification of costs and drilling down into the details of projects using TIF proceeds will be possible when actual work contracts are signed.

Tracey asked if the Project Committee is comfortable that the Master Plan vision meets the City’s objectives. It was explained that the project goes through the typical Department of Planning and UDARP approval processes. It was also stated that there are modifications and zoning changes necessary to make the project compliant and the proposed transit/transportation improvements currently planned will make the site more accessible.

BDC Chair Arnold Williams reiterated that over the last three (3) project meetings, the Project Committee has been scrutinizing the project assumptions, expenses, returns and City’s processes. Williams further stated that central to the committee’s review are a number of issues: understanding the Developer’s draw schedule and effect on the City’s bond rating, meeting/exceeding the City’s IRR threshold, and the negotiation of other priorities for the project (MOU Agreements). President Cole further emphasized that the policy question before the committee is whether the project could be possible without the TIF, and reiterated that the project needs the Federal/State Highway funding as well as the local investment in order to be financially feasible and publicly accessible.

Committee Action

A motion was made (seconded, approved unanimously) to recommend to the full Board the use of Tax Increment Financing for $535 million in public infrastructure costs for the Port Covington project, subject to final bond underwriting and determination of eligible costs, in addition to the following conditions: The motion included the following conditions:

- The City’s 6% IRR hurdle rate must achieved
- Profit sharing must be included
- Federal and State participation funding infrastructure to make the site accessible is required
- No significant adverse impact on school funding will occur
- No significant adverse impact on the City’s bonding capacity will occur

The meeting was adjourned at 2:13 p.m.

References:
MuniCap Project IRR comparison analysis
MuniCap Charts – Projected Revenues, Expenditures, and Annual Cumulative Returns
BDC Chart – Port Covington TIF Net Proceeds - Summary of Changes