State Center Project Review

Prepared by the Department of General Services and the
Maryland Department of Transportation

-- December 9, 2010 --

Introduction

In recent weeks, the State has received questions regarding the State Center transit-oriented development project ("State Center Project" or "Project"). This paper provides comprehensive responses to those questions. It also describes why the State Center Project provides a once in a generation opportunity for the City of Baltimore to transform an entire section of the City from a non-productive area into an engine of significant economic growth that benefits all communities. More broadly viewed, the State Center Project will serve as one of several pillars upon which the City and State can, together, implement a transit-oriented economic development strategy that will transform the City's entire downtown area into a location that can compete for business and residents worldwide. Perhaps in recognition of this potential, the ***Congress for New Urbanism*** selected the project in May 2010 as one of the seven best urban development projects in the world.

The State respectfully recognizes that the current recession is causing the Baltimore's Central Business District (CBD) to suffer higher than normal vacancy rates. This trend is economically painful to the City, as well as to other cities across the country. For this reason, the State is working with the City and Downtown Partnership of Baltimore in an effort to leverage the State's significant office space footprint in the CBD to help restore its economic health without harming other sections of the City (such as the nine communities surrounding State Center and the Cultural District with its important institutions). To advance this goal, the State: (1) has made a firm commitment to the City and to the Downtown Partnership that the State Center Project will have no net negative impact on the amount of State Office space in the CBD where it is already the single largest tenant; (2) has completed an inventory of its office space occupancy in the Baltimore region with an eye toward finding opportunities to use State agencies to further support the CBD; and (3) is exploring additional transit-oriented development project opportunities centered on Charles Center and Lexington Market areas, among other City locations, that will support the CBD.

More specifically, the only State agency that is moving its tenancy from the CBD to the State Center site is the Maryland Transit Administration (MTA), which is moving from the State-owned building at 6 St. Paul to a new building that will be constructed between the Cultural Center Light Rail and State Center Metro stations at the State Center site. However, the State has committed from the outset of the project that it will swap another agency that is currently located at the State Center complex into 6 St. Paul to backfill all of the space to be vacated by the MTA. Therefore, the State Center project will have no negative impact on the State's downtown occupancy. To the contrary, when successful, it can serve as a model for future TOD projects in the CBD.

The State Center Project was conceived more than five years ago in response to the deteriorating buildings and grossly underutilized 28-acre parcel of land known as the State Center site. The State fully explored all of the options that were available to it. It had the usual option of trying to overcome years of deferred maintenance by investing hundreds of millions of scarce State capital dollars renovating and/or replacing the publicly owned buildings at the site which would simply retain the unsatisfactory *status quo* at great expense to the State. Its second option was to vacate the 28-acre parcel and disperse its agencies throughout the City and State, leaving a blighting influence that would do severe damage to the adjacent nine neighborhoods, the Cultural District, and the educational, medical and cultural institutions, without generating significant offsetting benefit. The third option was to leverage the State's office tenancy at the site to create a privately financed, mixed use, transit oriented development that provided office space to the State while bringing economic vitality to the site and surrounding area.

The first option of renovating the existing buildings at the State Center site was rejected for two reasons: the State would not approve the more than $500 million in capital funding that would be needed to renovate/replace the existing buildings; and rebuilding the complex as a State-owned facility would neither create any economic redevelopment of the State Center site or the surrounding areas nor take advantage of the significant opportunity to create a TOD on one of the most transit-rich sites in the State.

The second option of dispersing the State agencies was rejected because it would have created a vacant and undevelopable 28-acre dead zone at the site that would visit unacceptable harm on the area and the City. Just as the State had made a commitment not to reduce its office presence in the CBD, it made a similar commitment to the State Center communities that it would retain its presence there as well. In addition, the dispersion option would have required the State to break up its larger agencies into separate buildings and scatter them and other smaller agencies across the downtown and beyond which would in turn undermine State's operational efficiency. The third option, the State Center Project, for all of the reasons cited below, was determined to be the best solution… a solution that would convert what is currently an underutilized site into an economic engine. The project will also bring economic gain to all sections of the City, including the CBD. This paper's will discuss some of those benefits in greater detail and dispel certain misperceptions of the Project.

5 REASONS WHY STATE CENTER IS GOOD FOR BALTIMORE

1. New Tax Revenues for the City

The State Center complex is owned by the State and, therefore, currently generates no taxes for the City or the State. By transferring ownership of the property to the private sector, the Phase One of the State Center Project alone will generate tens of millions of dollars in new taxes for the City and for the State during the next twenty years. However, some have stated that the project will require a $314 million tax increment financing (TIF), that such funds would be paid to the developer to subsidize the project, and that the City cannot afford this alleged subsidy. None of this is factually true.

The TIF request for State Center Phase One will be $10-15 million, not $314 million. Therefore, the $314 million figure represents a gross misrepresentation. Moreover, neither the developer, nor the City, nor the State has determined how much or even whether additional TIF funding will be requested for future phases of the project. This is because there is no set development plan for future phases and there has been no study done of the City infrastructure needs beyond the Phase One plan. However, in all events, the $314 million figure is grossly high under any scenario for the project. It is the State's belief that project opponents may have pulled the $314 million figure from an early conceptual budget for the project that was created nearly three years ago and that assigned the then-existing $314 million gap in project funding to a line item marked TIF for lack of a better place to assign it at that time. That conceptual budget framework represented a preliminary effort to begin to estimate costs associated with the entire five-phase project. It was superseded more than a year ago as the actual project designs and budgets were shaped. In short, the only TIF request for the project that has been made is in the range of $10 to 15 million for Phase One of the project.

Perhaps more importantly from a policy and fiscal perspective, the City currently receives no taxes from the State Center site. If the project is built, then the $10-$15 million TIF bond would be re-paid out of new taxes that would not exist "but for" the State Center Project. Therefore, a TIF would not drain existing funding from the City. To the contrary, the State's economic consultants project that State Center Phase One will generate a projected fiscal benefit of $50 million in new taxes for the City over the first twenty 20 years, $30 million of which will be paid into the City's general fund while approximately $20 million will be used to repay the TIF bonds. Therefore, the Project will add substantially to the City's revenues and general fund rather than subtract from them.

Finally, the developer would not receive the TIF funds for its private development (unless the City decides to allocate a portion of the proceeds to low income housing at the site pursuant to its inclusionary housing ordinance). Instead, the TIF proceeds are used to pay for City-owned infrastructure that benefits the public, including street and sidewalk improvements. Therefore, the TIF proceeds provide a benefit to the City that otherwise will not be realized.

In stark contrast to the fiscal benefits for the City from State Center Phase One, the recently suggested alternative of moving State agencies out of State Center and into vacant space in the City's Central Business District would generate no significant new taxes for the City. While moving a tenant from one building to another does provide some limited movement of economic activity from one neighborhood to another, it does not add significant new economic activity within the City. Therefore, assuming that all 500,000 square feet of State office space included in Phase One is transferred to vacant space in other parts of the City, then this would result in an estimated $2.5 million in tenant fit-out investment, but no significant new taxes. Similarly, if the State had pursued the option to build the new office buildings with its own funds rather than lease space in privately financed new buildings, an option that is not feasible because it would not be approved by the State budget committees, the City's benefit would be limited to some taxes during construction, but no new ongoing taxes from the Project.

2. New Jobs for the City

The City will benefit from thousands of new construction and permanent jobs from the State Center Project. In contrast, dispersing State agencies across existing vacant space in the CBD would generate a negligible number of new jobs. Therefore, from a jobs perspective, State Center Phase One is superior to this alternative. The State's consultants, Bay Area Economics, used the IMPLAN economic model to estimate the number of new jobs that Phase One would generate within the City. They projected that Phase One would create 1,598 construction jobs and 156 permanent new City jobs (excluding State workers). Moreover, if the project were successful in achieving its goal of adding new private office space, then the Phase One site would generate more than 1,000 direct, indirect and induced permanent jobs. Although it is not possible to predict exact new job figures, it is clear that Phase One adds new employment in the City, and it will do so immediately. In contrast, relocating a few thousand State employees to space scattered across the CBD from a mile away, as suggested by project opponents, would generate few new jobs in the City, and any limited new economic activity that was generated in the downtown area would be entirely offset but the concomitant reduction in economic activity that exists in the State Center vicinity. In short, moving agencies from one neighborhood to another is a zero sum move for the City from an economic growth and new tax perspective whereas the State Center project would generate significant <u>new</u> economic activity and taxes.

More specifically, agency relocation to existing vacant space in the CBD would not generate any new investment or taxes because the buildings are already built. This option might result in some investment in the fit-out of the office space that would generate less than 100 construction jobs in comparison to the 1,598 generated by construction of State Center Phase One. Additionally, any increase in new downtown retail activity is limited both by the relatively low salaries of the State workers and by the fact that these workers already spend a portion of their earnings in the downtown. Lastly, as noted above, the relocation option simply moves some of the retail activity around within the City and does not generate significant new retail jobs for the City as a whole. Likewise, simply renovating the existing buildings in the State Center complex would generate far fewer jobs than proceeding with the State Center Project. Therefore, although the relocation would have a limited positive economic impact on the downtown, the State Center Project will generate a much more significant positive jobs impact for the City as a whole. From a new jobs and economic growth perspective, State Center Phase One is vastly superior to relocating agencies to existing vacant space.

3. New Minority Contracting Opportunities

The State Center Project offers a transformational $500 million contracting opportunity to the Minority and Women's business community whereas renovating the existing State buildings or relocating State agencies to existing vacant space represents less than a $2 million opportunity. African Americans and females make up the majority of The City of Baltimore. And yet, women and minorities participate in the economy at a much lower percentage than would seemingly be warranted.

The State Center Project offers a unique opportunity for women and minority developers and contractors to gain a more proportionate share of a significant real estate development project. It does this because the development team, which also includes significant minority and woman membership, has committed to a 35% minimum W/MBE participation in project contracting.

First, the master development entity, State Center, LLC, is 33% minority owned and the managing member, PS Partners, is woman controlled.

Second, the vertical development entity for the commercial portion of the development is 50 percent minority owned and the vertical development entity for the "for sale" housing component is 100% minority owned. Third, the developer has committed to having the general contractor team include 35% minority participation. Finally, the developer has committed to a 35% W/MBE participation in all contracting. This represents a $75 million W/MBE contracting opportunity for Phase One and a $500 million opportunity for the entire five-phase fifteen-year project.

In contrast, dispersing State agencies across vacant space in the Central Business District offers a $2.5 million fit-out opportunity for Phase One and a $5 million opportunity for all phases of occupancy. If the downtown building owners commit to a 35% W/MBE goal, this represents an $833,000 W/MBE opportunity for Phase One and a $1.7 million opportunity for all phases of the Project. In addition, the dispersion option does not appear to offer the woman or minority community significant equity opportunities. Therefore, the State Center Project offers a transformational opportunity to women and minorities in the City, as opposed to other alternatives which do not. Additionally, the renovation of the existing State Center buildings by the State also would provide a much more limited opportunity to women and minorities.

4. Opportunity to Transform Baltimore

The State Center Project offers an opportunity to transform the northwest section of Baltimore's downtown bringing significant benefits to the cultural district, the University of Baltimore, Maryland Institute College of Art (MICA), Maryland General Hospital, the Lyric, the Meyerhoff Symphony, and the nine surrounding neighborhoods. Vacating the site will leave a 28-acre concrete hole in the center of the area that has a blighting and negative impact on the nine neighborhoods and on the surrounding institutions. Perhaps the project's most significant benefit to the City is the "halo impact" that it will have on the downtown area.

Currently, the State Center site generates no taxes or private economic activity. It divides nine neighborhoods and represents a dead zone adjacent to the significant economic engines and cultural drivers represented by the adjacent universities, hospital, and performance halls. The State Center Project provides a unique opportunity to restore the historic street grid to the site and to create a green and sustainable community at the heart of the northwest section of the downtown that will serve as a "meeting place" rather than a "dividing line". The added residences, retail, and office workers will bring economic dynamism to the area that would uplift the surrounding communities and institutions. Together, this would generate real estate value across a span of property that is larger than the State Center site itself, much in the way the Inner Harbor project and other large projects have done here and elsewhere in the country. Together, this would provide new tax revenues and jobs for the City.

In contrast, dispersing State agencies to vacant space in downtown would leave an even worse situation behind than exists today. Based on discussions with its consultants, and the State's own observations, it is clear that State Center could remain vacant and underutilized for decades if the State agencies were moved and their presence not leveraged to bring private investment to the site. The very cost of demolition and infrastructure combined with the weak market that currently exists in that area makes it highly unlikely that the private market will redevelop the site in a significant and beneficial way to the City. This result would drag down values and activity throughout the area and negatively impact surrounding communities and institutions, as well as negatively impact the entire City.

5. Leveraging Private Investment for Public Good

The State Center Project offers an opportunity to bring significant new private investment to the City. The relocation of State agencies to existing vacant space does not offer the same opportunity. The State structured the State Center Project development in such a way that the private markets will finance the vast majority of the Project. As a result, the first phase of the project will bring $175 million in new private investment to the City and $28 million in State Capital investment in a garage. The new private investment will be in the form of private debt and equity used to construct the new buildings. In addition, the entire 5-phase State Center Project will require more than $1 billion in new private investment in the City. This investment, which cannot be provided by the State or City government, will have a significant impact as it ripples through the City's economy. In contrast, relocation of State office space intended for Phase One would bring an estimated $2.5 million in fit-out investment or about $5 million for all State Center agency tenants. Therefore, the State Center Project offers a unique opportunity to bring significant private investment into the City during a difficult economic time. Again, the entire City, including the Central Business District, will be enhanced by the State Center Project.

TRANSIT ORIENTED DEVELOPMENT IS GOOD FOR BALTIMORE

Some argue that the State Center Project is not a transit-oriented development ("TOD") simply because the State is supporting construction of a 928-space parking garage and therefore the Project is too 'car-centric.' This is simply not the case. The State Center Project is a model TOD project that has been recognized as such, as noted above, by the *Congress for New Urbanism* which awarded it one of just seven Charter Awards in May 2010 bestowed worldwide.

Reconnecting America's Center for TOD (www.reconnectingamerica.org) defines transit-oriented development as follows:

> "Transit-oriented development is often defined as higher-density mixed-use development within walking distance – or a half mile – of transit stations. We use a performance-based definition, and believe that projects should also:
>
> - Increase "location efficiency" so people can walk and bike and take transit
> - Boost transit ridership and minimize traffic
> - Provide a rich mix of housing, shopping and transportation choices
> - Generate revenue for the public and private sectors and provide value for both new and existing residents
> - Create a sense of place
>
> TOD is about creating attractive, walkable, sustainable communities that allow residents to have housing and transportation choices and to live convenient, affordable, pleasant lives -- with places for our kids to play and for our parents to grow old comfortably."

The State Center Project meets and exceeds this nationally recognized TOD definition and is a model TOD for a number of reasons. The site is one of the best transit hubs in the State since it is served directly by both the Baltimore Metro and the Baltimore Light Rail and is within ½ mile from Penn Station's AMTRAK and MARC Station (see attached Map). From State Center, transit riders can directly access the BWI Airport, the Convention Center, the Stadiums, and Penn Station, among many other destinations, using the Cultural Center light rail station. Riders can access downtown, the Inner Harbor, Johns Hopkins Hospital, and many other locations using the Baltimore Metro station on the site. Riders can travel throughout the East Coast using MARC and Amtrak at Penn Station.

The site is also clearly well-served by transit, one of the primary components of TOD. The Project is being designed to improve and increase access to transit and reconnect nine surrounding neighborhoods. The transformation of surface parking lots and single-use buildings into a more vibrant, pedestrian and bicycle friendly environment will better link the State Center Metro station and the Cultural Light Rail station. Currently, the two stations are not visible to one another and are linked by a barren concrete sidewalk that has no people, businesses or residences on them after 5pm each weekday, and none on the weekend. A new network of attractive, pedestrian-friendly streets, new open spaces, and a sidewalk activated with street-level shops and restaurants with mixed-uses above will improve connectivity of surrounding neighborhoods to transit. It will also create a more attractive and livable environment for State Center itself. By improving connectivity to the neighborhoods and by making the connection between the two stations more attractive, bike/pedestrian friendly, and safe, the project achieves a second significant component of TOD. The current State Center development includes only State-owned office space.

The transit stations at the site currently are not readily accessible to residential, business, and entertainment users, and the uses on the site do not maximize the use of the transit asset that is available. By creating a transit-based mixed-use and mixed-income community on the site, the Project achieves a third significant component of TOD. The question has been raised whether the site will include too much parking to be considered a TOD. The complete State Center build-out program provides for about 1 space per 1,000 square feet of use. For comparison purposes, the proposed new Baltimore City parking regulations for TOD zoning districts would allow two spaces per 1,000 square feet of similar use, the proposed standard downtown zoning would require at least 1.5 parking spaces, and Baltimore County would require more than 2 parking spaces per 1,000 square feet. Therefore, the State Center parking plan is well within TOD norms. The proposed parking ratios for State employees also reflect the TOD character of the Project. The State currently provides one parking space at the site for every three employees. Because the site is being redeveloped as a TOD, the State is planning on reducing this ratio to one space for every four State employees which will represent less than one parking space per 1,000 square feet of State office space, a figure that is also well within TOD norms. As a point of comparison, the State provides one space for each employee in areas where there is no transit, and so State Center will include 1/4th the standard amount of parking provided to State employees.

The State Center project represents an opportunity for the City to continue to build an economic growth strategy based on TOD. Please find attached to this paper a map illustrating how the City's downtown can grow around five TOD nodes that are all connected by existing and future transit stations.

<u>THE PROJECT CONTINUES TO BE A MODEL FOR A FAIR AND TRANSPARENT PROCESS OF INVOLVING AS MANY STAKEHOLDERS AS POSSIBLE IN THE LEVERAGING OF STATE ASSETS FOR PUBLIC GOOD.</u>

All stages of this Project have benefited from thorough and comprehensive State, local, and public planning and participation. <u>In September 2005</u>, the State issued a Request for Qualifications ("RFQ") for a developer to redevelop the State Center site. The RFQ stated that it was anticipated that the development would be privately owned and operated. It also committed the State to retaining the current number of 3,500 State employees on the site. Despite the fact that the selection of the development team was not subject to the State's procurement laws (because the transaction is a land disposition), the State nevertheless followed a competitive and inclusive selection process that involved the scoring of the competing teams. In March 2006, a 27-member RFQ evaluation panel committee, which included active participation from the community, selected developer State Center, LLC which included Struever Brothers Eccles and Rouse ("SBRE"), McCormack Baron and Salazar ("MBS"), and Doracon Development ("Doracon") for the right to enter negotiations for the redevelopment of the property. In June 2007, the State Board of Public Works ("BPW") approved a Memorandum of Understanding ("MOU") between the State and State Center, LLC that granted the developer an exclusive negotiating privilege and the right to negotiate with the State toward an Interim Development Agreement. In a process referred to as "Cityscaping", the State and developer hosted and/or attended more than 60 meetings with the nine communities to obtain input into the Project design and support from the communities and local institutions.

In December 2007, after extensive community input and negotiation of the parties, the BPW approved an Interim Development Agreement ("IDA") that provided a roadmap for the further negotiation of the transaction and potentially a master development agreement that would dispose of all or portions of the State property at State Center for redevelopment. The IDA granted the development team certain rights while also granting the State the right to approve any assignment of the exclusive interim development rights to other parties. In addition, the IDA created the State Center Executive Committee that was chaired by the Secretary for the Maryland Department of General Services ("DGS") and included the Maryland Secretaries of Transportation ("MDOT"), Department of Business and Economic Development ("DBED"), the Department of Housing and Community Development ("DHCD"), and the Maryland Department of Planning ("MDP"). In April 2008, the State approved the developer's preliminary development plan that was consistent with the original RFQ vision for the site and was based on the vast amounts of data and opinions gathered from the Cityscaping process.

In December 2008, after numerous meetings with the City and input from the community through the local land use process, the Baltimore City Council unanimously approved the planned unit development that provided parameters for the development, including maximum build-out allowances (following unanimous UDARP approval). Its important to note that the community provided unanimous support for the development plan at both UDARP and the City Council. In January 2009, Doracon voluntarily withdrew from State Center, LLC. A few months later, SBRE informed the State that it wanted to transfer its development rights to a third party subject to State approval as required by the IDA. By that time, the development team had expended substantial funds and over four (4) years of time completing an acceptable development plan for the site and progressing through the negotiation and pre-approval processes. The IDA provided that the developer must seek written approval from the State before it could alter the development team or structure.

During February 2009, the legislative budget committees established a State Center work group to review input from the State and from the Department of Legislative Services ("DLS") regarding the proposed Project structure and report back to the members of the budget committees. In May 2009, after significant due diligence, the State, with the support of the State Center Executive Committee, approved SBRE's transfer of its stake in State Center, LLC to PS Partners which consisted of an entity controlled by developer Chris Kurz and a new development entity controlled by Caroline Moore. The State determined that PS Partners had significant financial strength and development expertise and was a strong substitute for SBRE in the project. Moreover, the new development partnership agreed to accept all existing legal obligations and the preliminary development plan, and offered to add a new minority partner to replace Doracon to further strengthen the development team. The substitution process and selection were also presented to the State legislative budget committees and the BPW staff for review and comment prior to approval.

The Attorney General's office was also consulted throughout this process. MBS remained a 33% owner of State Center, LLC and retained its rights to build the rental housing component of the Project. In June 2009, after Senate and House budget committee hearings and approval, the BPW unanimously approved the Master Development Agreement ("MDA") between the State and State Center, LLC. The MDA granted State Center, LLC development rights to the 28-acre State Center property to be exercised pursuant to an agreed-to framework. Generally described, the agreement calls for a phase-by-phase ground leasing of property to State Center, LLC and potential leaseback of office space by the State in new or refurbished buildings at the site, with phase lease agreements subject to BPW approval. The agreement also called for the construction of a mixed-use development on the site.

In August 2009, the State Center Executive Committee was expanded to include two Senators, two Delegates, and the Maryland Stadium Authority, to provide additional oversight and expertise to the Project. The Mayor's office and the Baltimore Development Corporation were also invited and attended the meetings of the Executive Committee to ensure a full and transparent process regarding all significant decision made regarding the project. During August 2009 through March 2010, State Center, LLC engaged in a full and fair search for a new partner to replace Doracon's 33% stake in State Center, LLC. The developer contacted more than 20 minority development firms locally, regionally and nationally and prepared a solicitation document that was approved by the State and then circulated to about ten minority developer candidates. The developer selected its new partners and submitted them for State consideration.

After significant process, negotiation and review by the State staff, the Executive Committee, the State legislative budget committees, and the Board of Public Works staff, the State approved the addition of four minority development firms to the State Center, LLC. These firms, which each purchased 8.25% of State Center, LLC for a total ownership stake of 33%, included TAC (Ron Adolph) from Prince George's County, Neighborhood Development Company (Adrian Washington) from Washington DC, C.L. McCoy (Chris McCoy) from Baltimore City, and Commercial Interiors (Kevin Johnson, including investors Joe Haskins and Eddie Brown). In July 2010, after multiple Executive Committee, legislative and BPW staff briefings, and after Senate and House budget committee review and approval, the BPW approved the ground leases, State office space leases, and anticipated garage financing that represent Phase One of the State Center Project. In addition to the above items, the State staff submitted a series of publicly available presentations and reports to the State legislature and the BPW. The developer also posted significant information on the Project over time on a website, www.statecenter.org, to ensure a transparent process.

In sum, the State Center Project has been one of the most scrutinized and transparent development projects in the State.

THE STATE CENTER PROJECT IS THE MOST FISCALLY VIABLE AND RESPONSIBLE APPROACH TO REDEVELOPING THE COMPLEX AND NEIGHBORHOOD.

The State's decision to redevelop the State Center site using private development was the most fiscally beneficial option to the State and the City from a total cost benefit perspective. Moreover, it was the most feasible way to provide the State with office space in a campus setting, thus enabling synergy of operations across State agencies.

1. Public Ownership of the Site and Buildings Is an Infeasible and Inferior Option for the State and the City

Although the RFQ called for the redevelopment of State Center to be privately owned and operated, the State still investigated the option of replacing the State Center office buildings with state financed and owned office buildings. The analysis by Bay Area Economics as reviewed by Jones Lang LaSalle, confirmed that private redevelopment with a leaseback of the space was financially more beneficial to the State than public financing and ownership from a total cost benefit perspective. This is mostly because the State will receive ground rents (estimated at $30 million from Phase One over the first twenty years), pay lower operating costs, and receive tens of millions of dollars in new taxes in comparison to public ownership that would not provide ground rents or taxes. Moreover, it was clear from the State's research that public ownership would not allow for the leveraging of significant private investment in the site. The result would have been a project that did not provide as many new jobs taxes, or a TOD. Instead, the State would receive a newer and very expensive version of what is there today, a single-use Government site that generates no benefits to the City or communities.

Finally, it was also clear that the State legislature would not approve use of hundreds of millions of State Capital dollars to replace and maintain the State Center buildings given its limited debt capacity. In sum, public financing and ownership of new State office buildings at State Center was not feasible, was less financially beneficial to the State, would represent a repeat of the mistake made fifty years ago, and would not achieve TOD goals.

2. <u>The State also considered dispersing the State Center agencies to vacant space in the downtown Baltimore City business district. However, this option also involved drawbacks that made it less favorable to the State and the City than the private redevelopment option.</u>

In addition to the reasons discussed above, e.g. taxes, jobs, W/MBE participation, the seriously negative impact on the State Center site and surrounding area, and private investment opportunity, the State also rejected the option of dispersing State agencies to vacant space in the downtown district for two additional related reasons. First, there were no sufficiently large blocks of vacant space to house the agencies in a compact way. Second, by spreading out the State's agencies, rather than consolidating them, the State would suffer a decline in operational efficiencies and effectiveness. This was well understood by the decision-makers at the time. In summary, the significant positive impacts of the State Center TOD option far outweigh the negative impacts to the State Center site and to State operations that would result from the dispersion option. Please see attached to this document a table comparing the two options.

3. <u>A public-private partnership approach results in the State only paying market rents for the office space while the developer receives below market returns.</u>

The State employed Jones Lang LaSalle and Bay Area Economics to provide market and investment analysis of the financial agreements negotiated by the State. In brief, the $25.85 triple net rent rate in 2014 represents a $23 rent rate in today's dollars. There was unanimous consensus that this both represented the market rate for space in newly constructed office buildings and the lowest possible rent that could be paid and still allow for private financing of the buildings. This conclusion was further confirmed when the General Services Administration negotiated a $39/sq ft "all in" rent rate for the Social Security Administration's (SSA) lease of space in a "to be constructed" and privately owned and financed building at the Reisterstown Plaza Metro station in northwest Baltimore City. This represented about a $29/sq ft triple net rent rate for SSA, a rate that is a few dollars higher than the State's office rent rate at State Center, for a project that is similarly structured. This means that the State received a good rent rate for its office space at State Center as measured against the best "comp" available.

Whereas a market scan confirmed the market, a series of conversations with Wall Street banks confirmed the demands of the market for private financing. The banks and consultant were unanimous that investors needed to generate an internal rate of return in the high teens or low twenties to achieve financing. The agreements, as structured, will provide investors with an internal rate of return in the 14 to 17% range, which is below market. The Project is financeable because the State is a AAA credit tenant which reduces risk and convinces the investment and lending community to accept lower than market returns.

In summary, the State will pay market rate rents for the new office space that represent the lowest rents possible to support new construction. Therefore, lower rents were not feasible. In addition, payment of these rents was the most financially beneficial approach for the State to replace the office space at the State Center site from a total cost benefit analysis given the extensive projected new ground rents and taxes that the project is designed to generate.

4. <u>The Removal of the "Termination for Convenience" Clause from the State Leases is Required by the Unique Type of Financing for the Project</u>

The State has also become aware that some building owners in the City believe that it is unfair that the State did not include a "termination for convenience" clause in the State Center leases when in fact such a clause is included in nearly all other State space leases. However, there is a material difference between existing buildings and buildings that must be financed based on the revenues to be provided to the developer by the State's office leases. At State Center, the new private office buildings are being financed using 20-year bonds that offer the lowest financing costs available. These low financing costs are passed on to the State in the form of lower rent rates. However, the financial markets will not purchase the bonds if the State's leases contained the termination for convenience provision because the bonds would be at higher risk of default. Therefore, the project would not be financeable if the "termination for convenience" clause were included in the lease.

In contrast, existing buildings do not require construction financing and, therefore, there is no compelling reason not to include the termination for convenience clause in State office space leases in existing buildings. For example, should the State renew the leases at State Center in twenty years, the new leases would likely not include the "termination for convenience" clauses because the buildings will have been financed and constructed at that point and the lease would be treated like any other lease in an existing building.

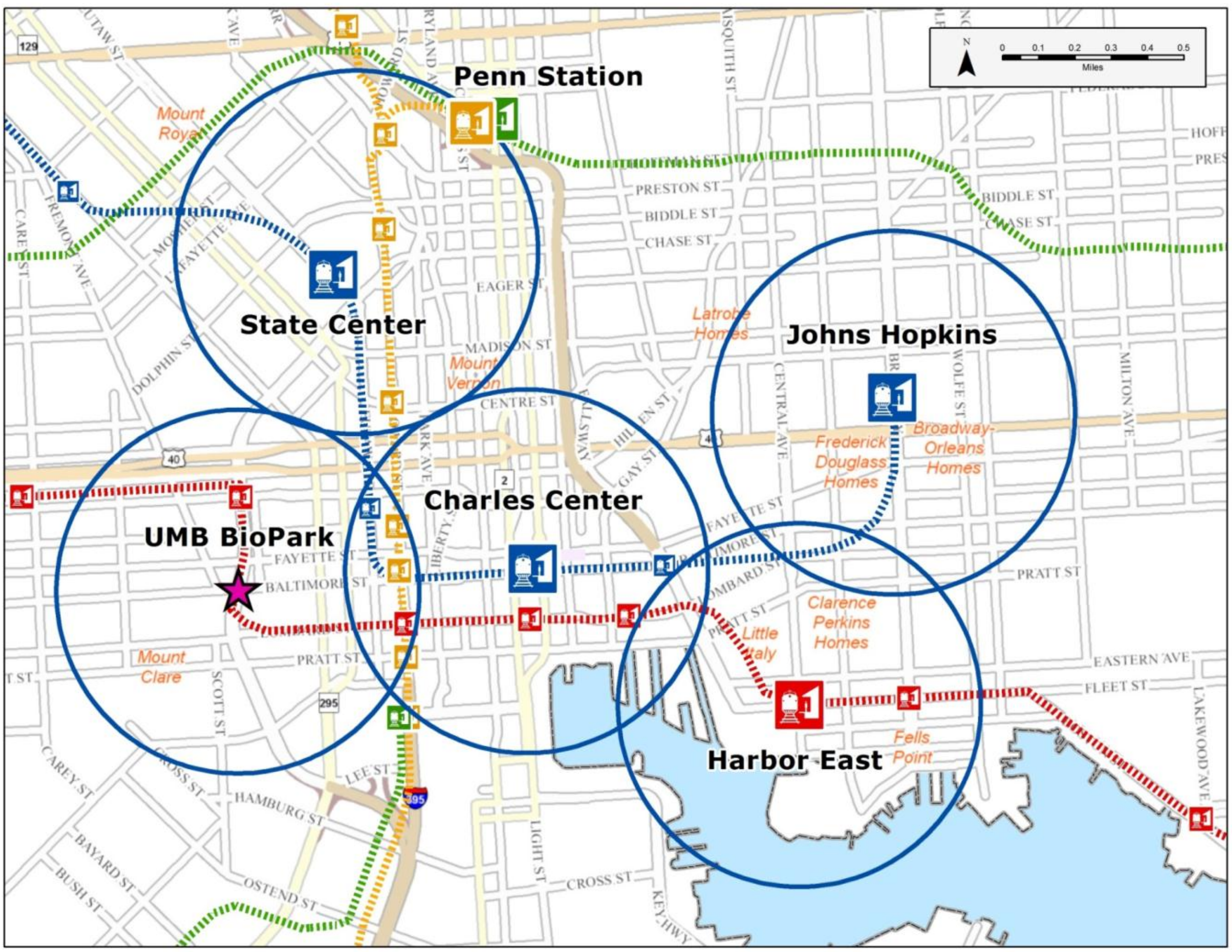
Finally, the State makes it a practice not to terminate for convenience any of its leases barring extraordinary circumstances and, therefore, this provision has not proven a challenge for existing building owners who rent space to the State.

Conclusion

The State's decision to redevelop the State Center site as a private development represents a singular and historic opportunity for the City to realize significant economic development, new taxes, new jobs, and the transformation of an area that has been undermined to date by the current State Center development. It also represents an opportunity for the State, in a fiscally responsible way, to replace its deteriorated and obsolete office space at the State Center site without leaving the City with a blighted, vacant, and undevelopable parcel adjacent to nine neighborhoods, the Cultural District, and significant institutions. Instead, the State Center Project will generate a world-class transit-oriented development that has already been recognized as one of the seven best sustainable urban development plans in the world. The State Center Project offers the promise of knitting together and building up the communities surrounding the State Center site. Most importantly, however, the State Center Project will elevate the image and economic prosperity of the entire City, including the Central Business District. The alternatives to the State Center Project may create some temporary and limited economic benefit to one part of the City (at the expense of another), but in the middle and long run, the State Center Project will provide the greatest overall long-term benefit to the State and all parts of the City, including the Central Business District.

Attachment One

Map of downtown Baltimore City, illustrating an economic growth strategy for the City of Baltimore built upon five core economic growth centers connected by existing and future transit.



TRANSIT BASED ECONOMIC GROWTH STRATEGY FOR BALTIMORE CITY

ATTACHMENT TWO

Comparison of Economic Impacts Between the State Center Phase One Project and the Relocation of the Same Amount of State Office Space (500,000 square feet) from State Center to Existing Vacant Office Space in the Central Business District.

City Impact Categories	State Center Phase One	Disperse Agencies to Vacant space
New city taxes (20 yrs)	$50 mil	$0
New private investment	$175 mil	$2.5 mil
New State Capital investment	$28 mil	$0
Construction direct jobs	1,596	100
New permanent direct jobs excluding state workers	156	0
W/MBE contracting	$75 mil	$833,000
New minority equity opportunity	50% of commercial; 100% of condo	No
Positive impact on State Center area	Yes	No
Community, City, State review and approval	Yes	No