



Port Covington Tax Increment Financing

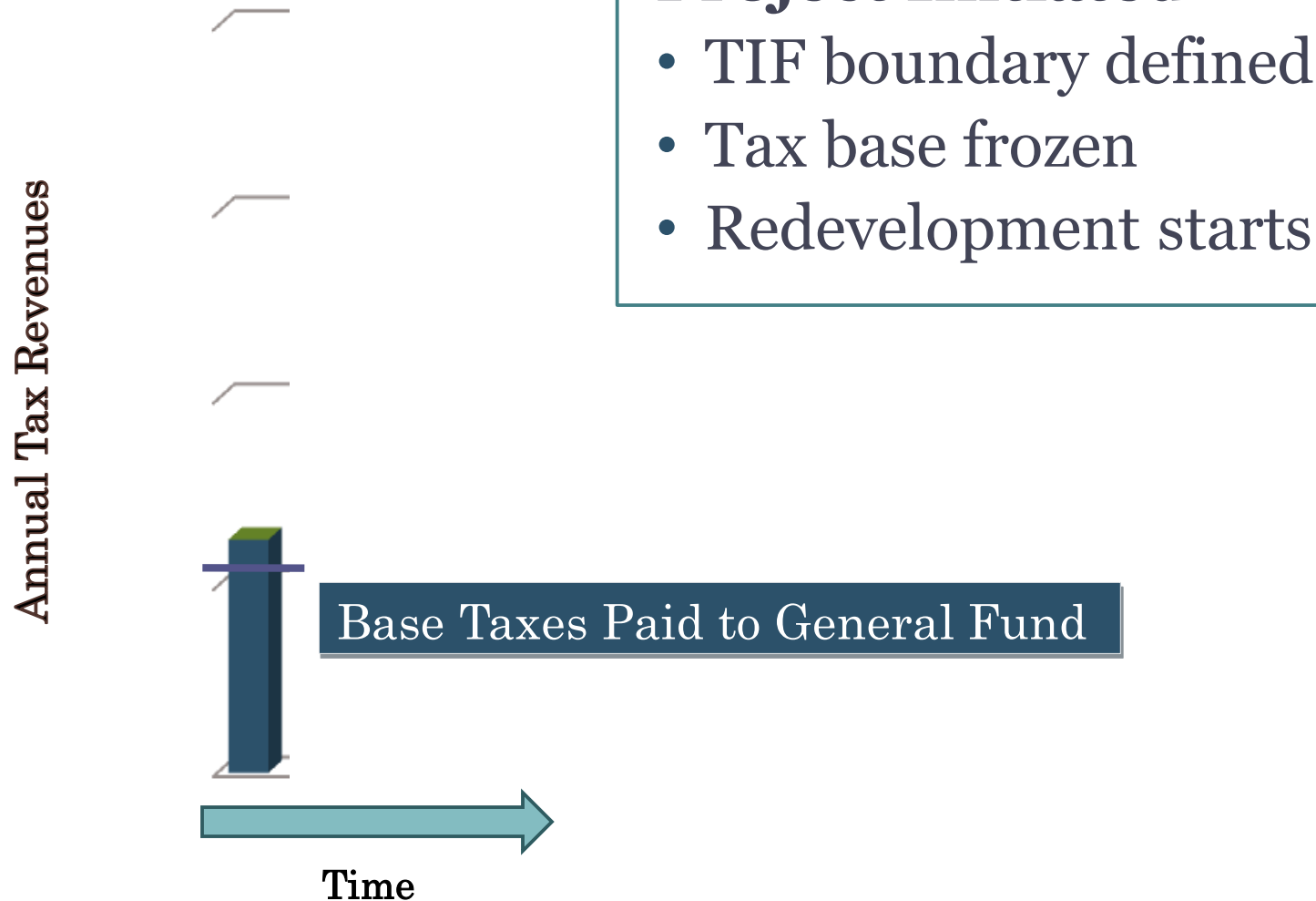
January 27, 2017

City of Baltimore
Department of Finance

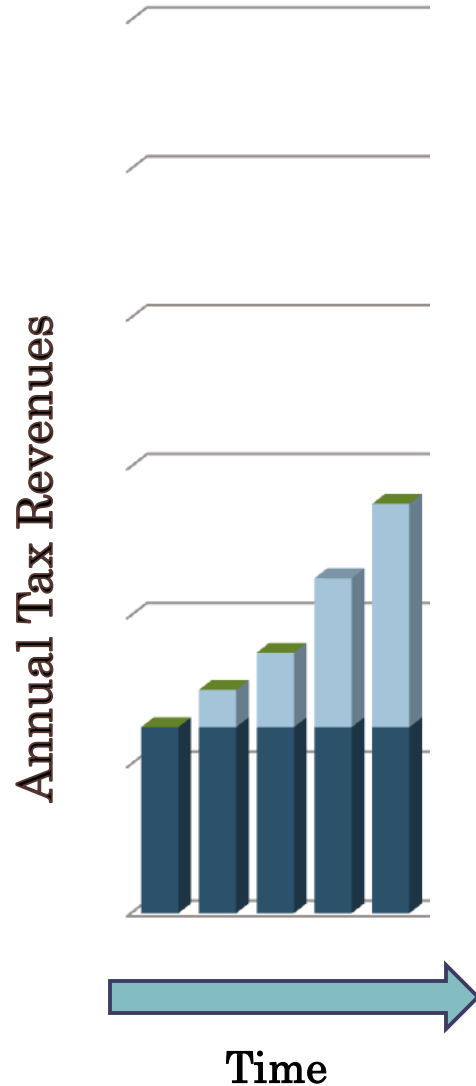
What is Tax Increment Financing?

- Tax Increment Financing (TIF) is a financing tool that captures and uses increased property tax revenues from new development within a defined geographic area to fund public infrastructure
- Tax Increment represent the taxes collected on the new assessed value within a development district
- Tax rate remains the same inside the development area as other City property , unless there is a revenue shortfall for debt service

Flow of Revenues



Flow of Revenues



Short-Term

- Construction underway
- Assessed value of property increases
- Issuance of TIF bonds

**Increases Assessed Value
Generating New Tax Revenue**

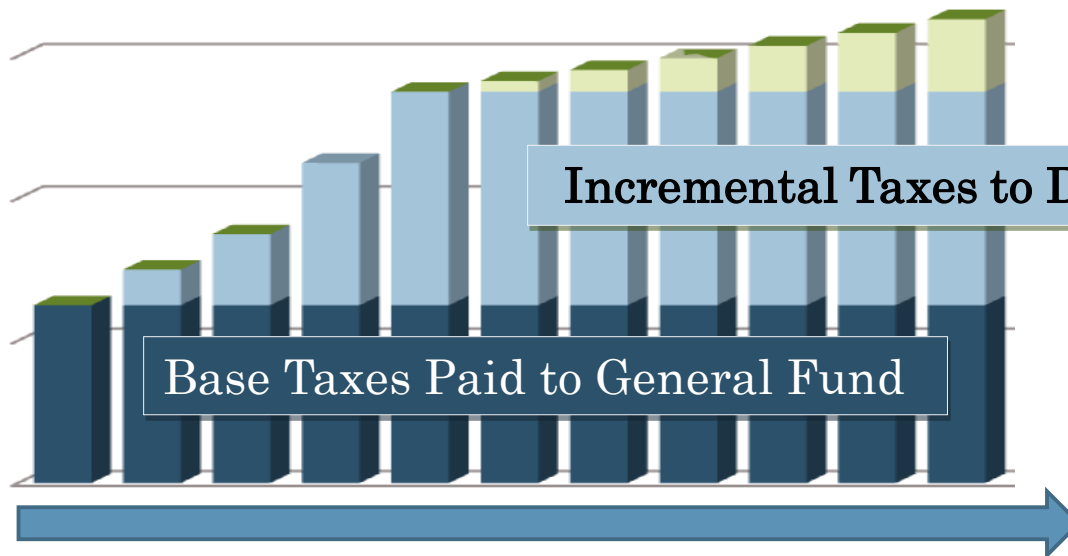
Base Taxes Paid to General Fund

Flow of Revenues

Mid-Term

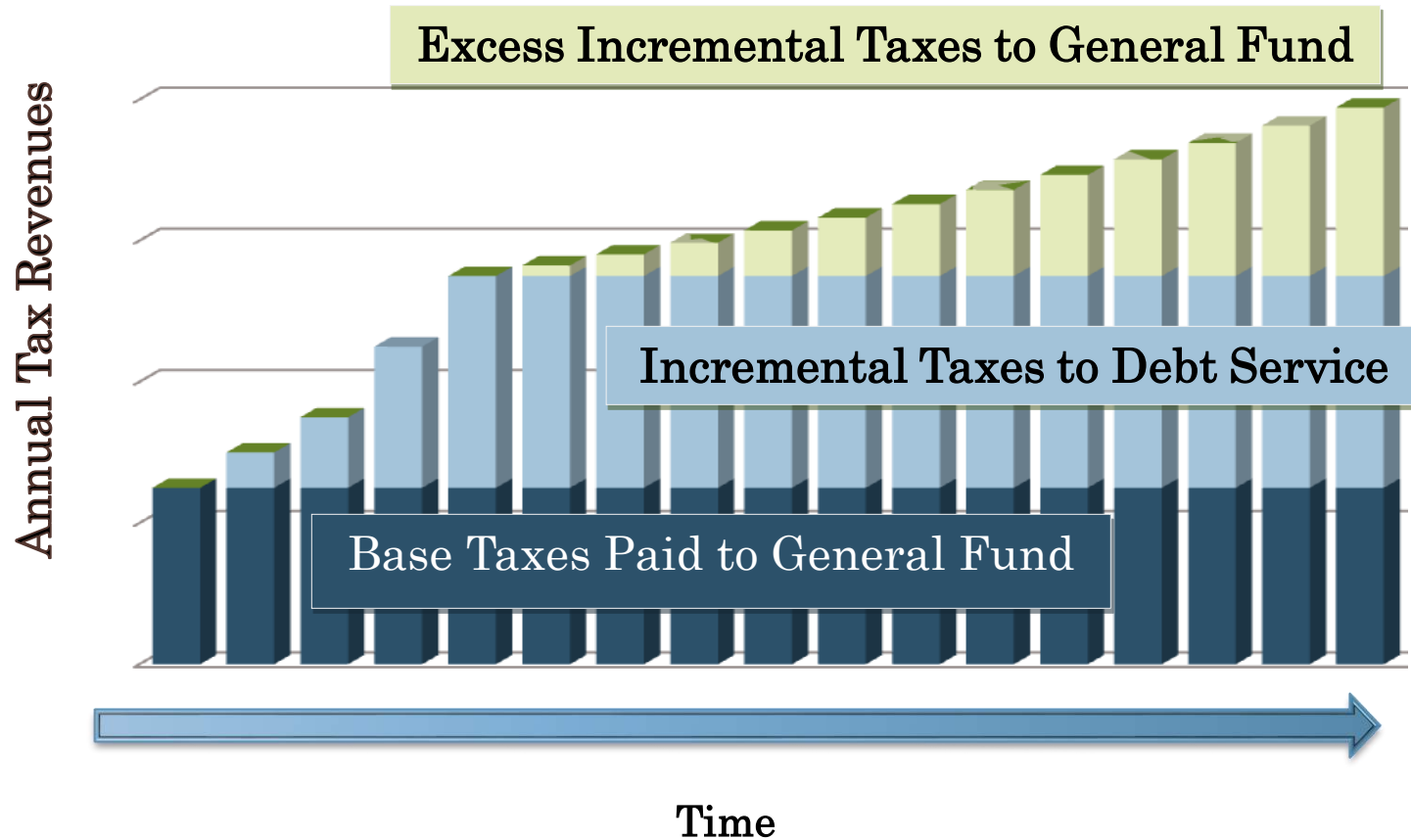
- Project Completed
- TIF bond amortization begins

Annual Tax Revenues



Time

Flow of Revenues



TIF Mechanics Summary

- Typically TIF bond proceeds are pledged to fund public City-owned improvements
- Bonds are **not** backed by the City's full faith and credit
- TIF revenues not needed for debt service on the bonds go to the general fund
- When the bonds are repaid, all TIF revenues revert to the general fund as part of normal tax collections



Port
Covington

Location

- 260-acre underutilized industrial area
- Two miles south of downtown Baltimore
- South side of the South Baltimore Peninsula
- Three miles of waterfront between Interstate 95 and the Middle Branch of the Patapsco River



**Port
Covington**



Baltimore

Downtown

FAYETTE ST.

PRATT ST.

Camden Yards

M&T Bank Stadium

295

395

HANOVER ST.

2

Federal Hill

FORT AVE.

95

HANOVER ST. BRIDGE

2

LIGHT ST.

Inner Harbor

KEY HWY.

Fells Point

BALTIMORE ST.

Patterson Park

EASTERN AVE.

FLEET ST.

Canton

BOSTON ST.

Northwest Harbor

Locust Point

Fort McHenry

FORT MCHENRY TUNNEL

Winans Cove

Patapsco River

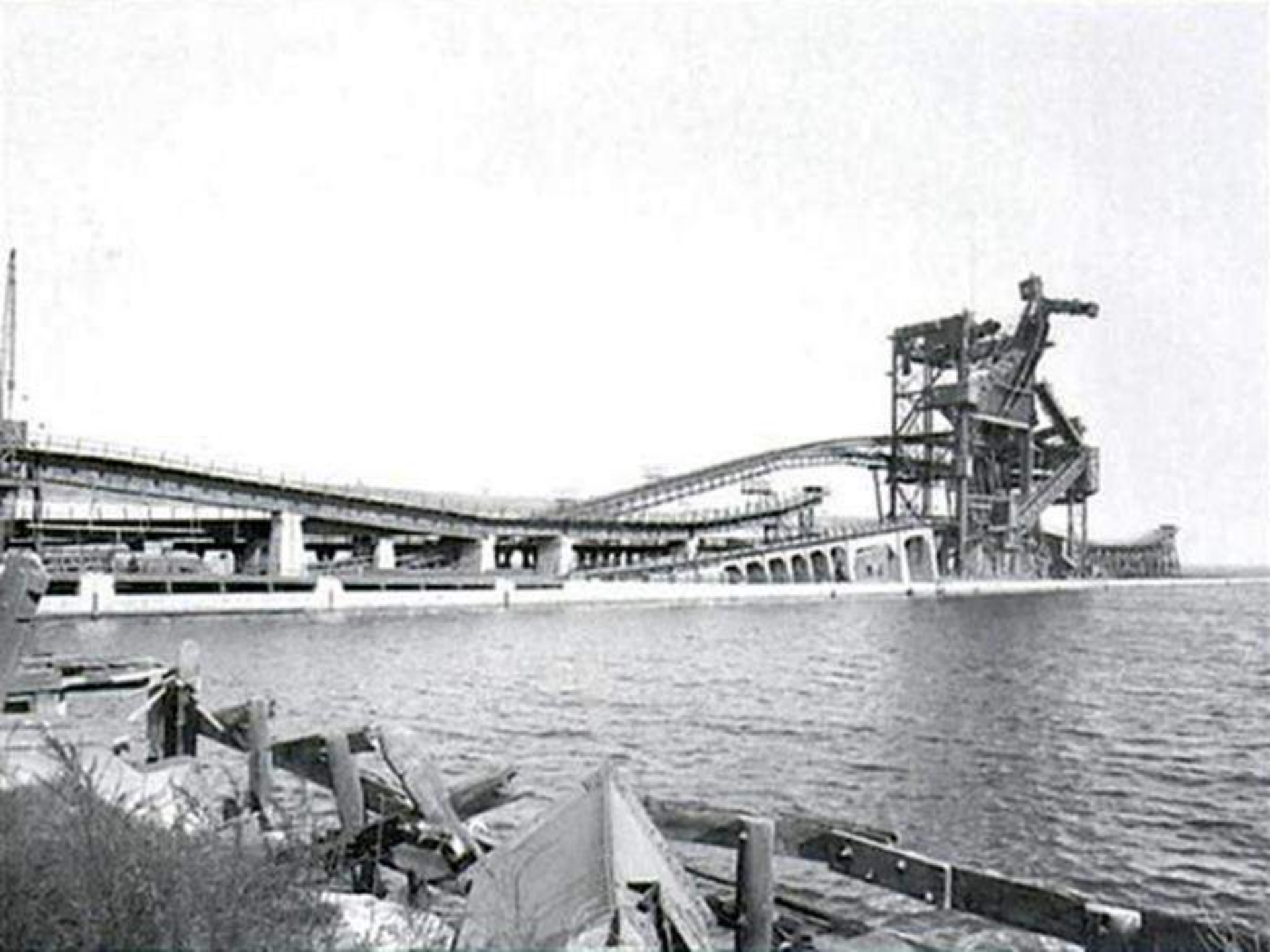
Port Covington

1/2 MILE

Historical Use

- Railroad terminal and coal loading facility until the 1970s
- Baltimore Sun headquarters
- Failed shopping center that included the nation's worst performing WalMart





Site Conditions & Constraints

- Frontage along Interstate 95 that experiences 200,000 vehicles passing a day
- Landlocked by Interstate 95 and the Patapsco River
- Minimum egress and ingress to the site
- Lack of and poor existing infrastructure, including roads, water and sewer
- Three miles of failing bulkhead



INNER
HARBOR

INNER
HARBOR
EAST

FELS
POINT

FEDERAL
HILL

LOCUST
POINT

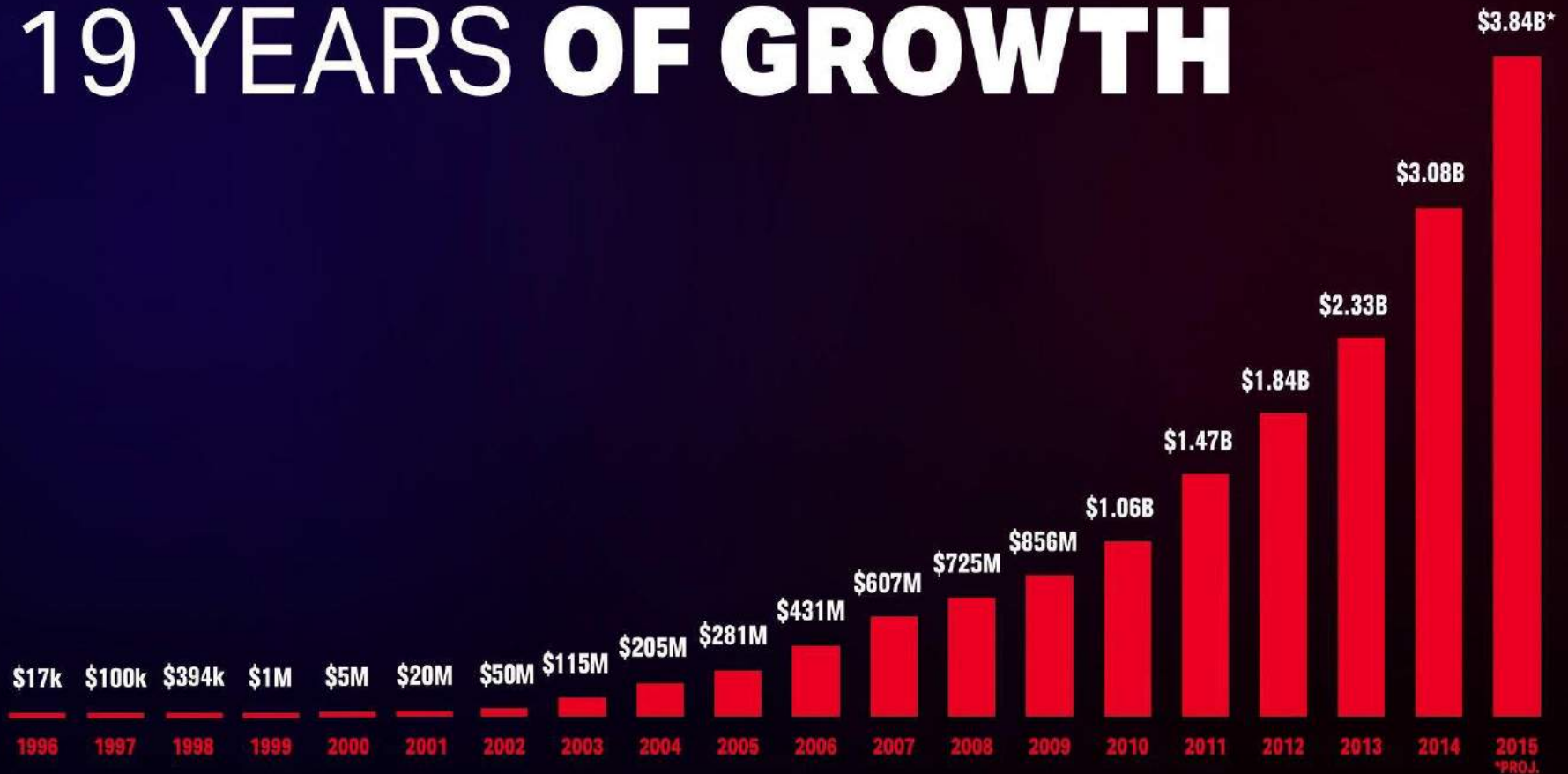
I-395

I-95



Under Armour Outgrowing Tide Point

19 YEARS OF GROWTH



“We are at a decision point. We want to invest in Baltimore, hire in Baltimore, live in Baltimore, and give in Baltimore.”

– Kevin Plank

Redevelopment Plan

The Port Covington project includes the following proposed components:

- The construction of 17 streets and 66 intersections resulting in 42 new city blocks.
- Approximately 5.5 million SF of office space, including approximately 3.9 million SF for a new Under Armour Global Headquarters campus.
- Over 7,500 residential units.
- Approximately 1.5 million SF of retail space
- 200 hotel rooms.
- Approximately 500,000 SF of manufacturing and maker space.
- Approximately 10,000 parking spaces.
- Over 40 acres of public parks and public access to the waterfront.

Public Benefit

- Expand City's public transportation system
- Rebuild three miles of failing seawall that will all be available for public use
- Create additional connectivity through public parks and promenades
- Make available a waterfront that has been neglected for decades
- Reconnect an area of the City that was isolated by the construction of an interstate highway
- Provide cultural and public amenities











City's TIF Process

- Step I:
 - Coordinating agency develops, evaluates, and approves TIF proposal
 - Coordinating agency works with the City's bond counsel, TIF financial advisor and Finance Department

City's TIF Process, continued

- Step II: Coordinating agency is responsible for the following:
 - Proposing the amount of the TIF and confirming the project requires the assistance.
 - Ensuring the TIF will advance the City's land use, economic development, and public improvement goals.
 - Confirming TIF proposal is consistent with criteria set forth in the City's TIF policies.
 - Assisting with preparing submission package to the Board of Finance (TIF Application)

City's TIF Process, continued

- Step III: Concept approval of the TIF proposal by the Board of Finance
 - The Board of Finance is responsible to ensure the TIF proposal is consistent with the City's TIF policies.
 - Preparation of legislation follows concept approval
- Step IV: Presentation of TIF legislation to the Board of Finance
- Step V: Approval of TIF legislation by City Council and Mayor

City's TIF Process, continued

- Step VI: Submission of documents for issuance of bonds to the Board of Finance
 - This submission must include the results of due diligence adequate to allow an evaluation of risk
- Board of Estimates may also be required to approve various contracts

Port Covington Infrastructure Sources of Funds

Total Development District Private Contribution

Horizontal Sources of Funds	Amount	Percent of Total
<i>City Sources:</i>		
TIF Proceeds	\$534,795,000	37%
<i>Other/Private Sources:</i>		
Developer equity	\$327,780,988	23%
State sources	\$349,459,500	24%
Federal sources	\$224,223,500	16%
Sub-total other/private sources	\$901,463,988	63%
Total sources of funds	\$1,436,258,988	100%

TIF Funds

- Tax Increment Financing Bond Projections
 - Total gross bond proceeds: \$660,000,000
 - Total net bond proceeds: \$534,795,000
 - Bonds sized for 125% debt service coverage at full build-out/full phase-in, excluding tax credits
 - The projections indicate the developer will pay \$291 million in special taxes and reimburse the City \$34 million in Brownfield credits
 - The bonds are projected to be issued in four phases over the next 12 years

Deal Related Issues

- Sizing of TIF
- But for test
- Fiscal impact
- Risk mitigation issues
- Impact to City's debt capacity
- Nature of public improvements being financed
- Availability of other public funding sources
- School funding
- Creating two cities
- Corporate give away

TIF Sizing Constraints

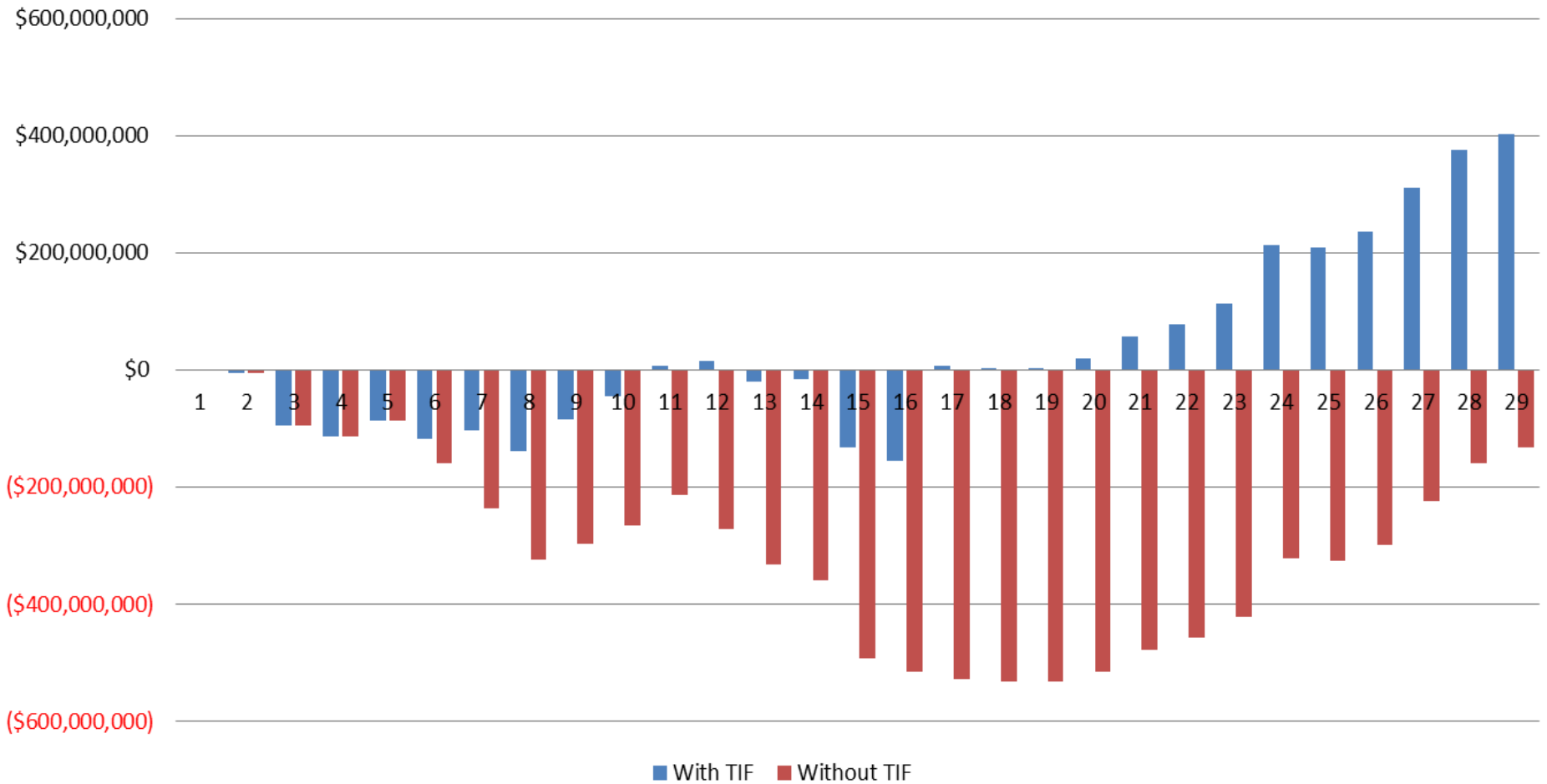
- How much assistance does the project require to be feasible?
- How much investment can the city afford?
- What is the amount of investment justified, based on the benefits of the project?
- How much public investment will the revenues support?
- Are there sufficient improvement costs on which public funds can be spent pursuant to IRS regulation, state law, and public policies?

But for Test

- “But for Test” - The project would not be feasible without the City’s contribution
- Qualitative and Quantitative approach
 - Site constraints
 - Rate of return without TIF: -1.90%
 - Rate of return with TIF: 9.24%
 - Fourth Quarter 2015 PwC Real Estate Investor Survey reports:
 - 15% average IRR for land development

Port Covington

Proforma Analysis - Cumulative Cash Flow With and Without TIF



Employment

Project will produce employment opportunities both temporary construction and permanent.

Development District Temporary Employment Impacts

	Temporary jobs	Annual Compensation
Construction Direct Impacts ¹ :		
Direct impacts (jobs & labor income)	15,219	\$1,406,909,306
Direct impacts (full-time equivalents & wages)	14,603	\$1,173,500,130
Construction Indirect Impacts (job & labor income)	8,775	\$513,458,558
Total temporary impacts²	23,994	\$1,920,367,864

Employment, continued

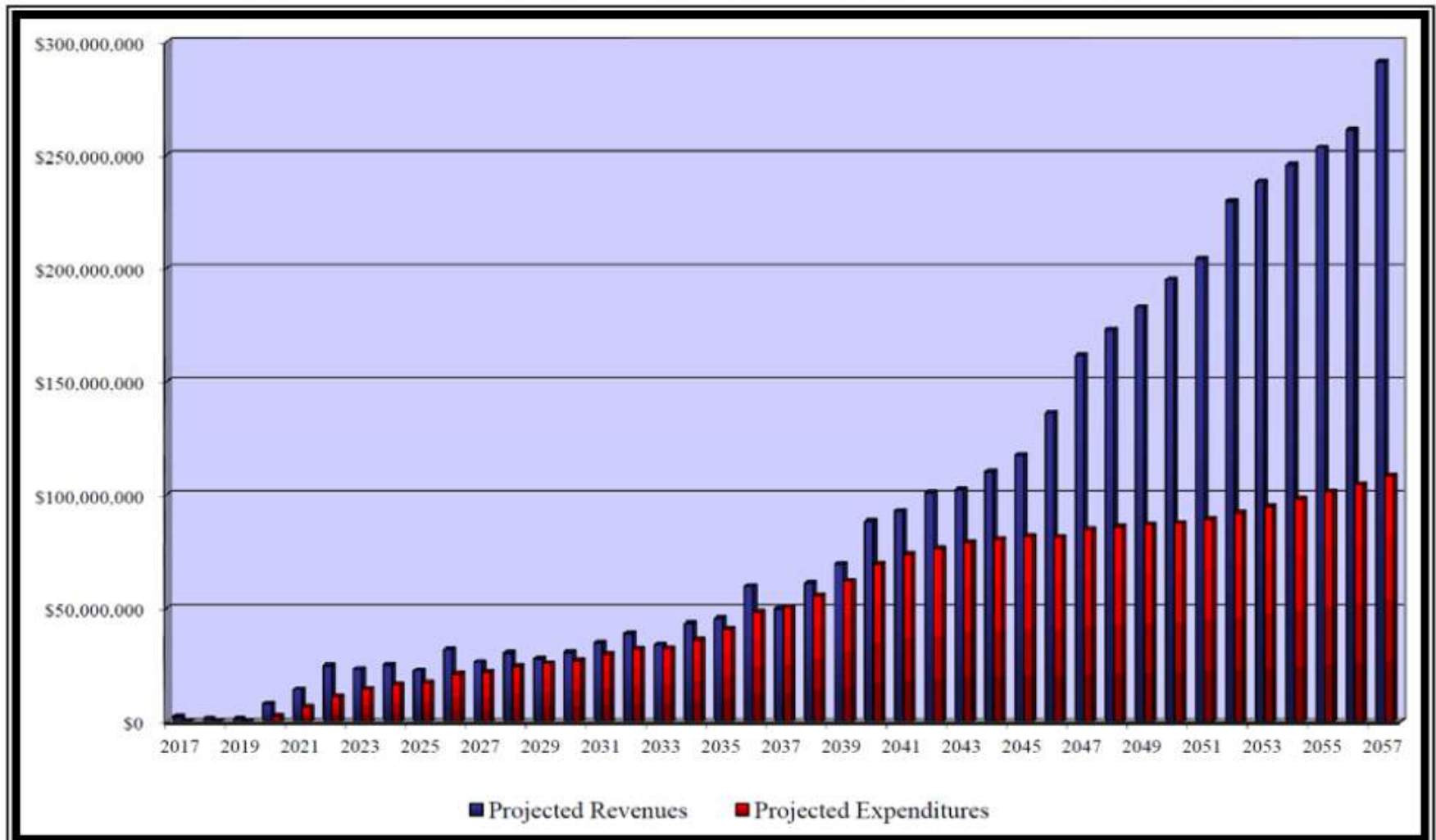
	Permanent jobs	Annual Compensation
Retail Direct Impacts:		
Direct impacts (jobs & labor income)	5,920	\$155,986,995
Direct impacts (full-time equivalents & wages)	4,857	\$129,889,921
Retail Indirect Impacts (job & labor income)	881	\$55,170,788
Total retail impacts	6,801	\$211,157,783
Office Direct Impacts:		
Direct impacts (jobs & labor income)	18,844	\$1,594,506,965
Direct impacts (full-time equivalents & wages)	17,521	\$1,363,203,608
Office Indirect Impacts (job & labor income)	8,981	\$549,911,833
Total office impacts	27,825	\$2,144,418,798
Hotel Direct Impacts:		
Direct impacts (jobs & labor income)	95	\$5,127,742
Direct impacts (full-time equivalents & wages)	87	\$4,420,467
Hotel Indirect Impacts (job & labor income)	30	\$1,856,357
Total hotel impacts	125	\$6,984,099
Manufacturing Direct Impacts:		
Direct impacts (jobs & labor income)	147	\$9,675,117
Direct impacts (full-time equivalents & wages)	139	\$8,150,212
Manufacturing Indirect Impacts (job & labor income)	76	\$5,280,725
Total manufacturing impacts	223	\$14,955,842
Total Direct Impacts:		
Direct impacts (jobs & labor income)	25,006	\$1,765,296,819
Direct impacts (full-time equivalents & wages)	22,603	\$1,505,664,209
Total Indirect Impacts (job & labor income)	9,968	\$612,219,703
Total permanent impacts	34,974	\$2,377,516,522

Total Development District Net Fiscal Impact to Baltimore City

	Annual¹	41 Years²
Projected City Revenues:		
Real property tax increment revenues	\$64,561,390	\$2,647,016,996
Less: TIF debt service paid by property taxes	(\$34,744,279)	(\$1,424,515,451)
Net real property tax increment revenues	\$29,817,111	\$1,222,501,545
Special taxes paid by the developer	\$7,118,250	\$291,848,253
Additional special taxes paid by the developer ³	\$833,135	\$34,158,544
Net real property tax increment revenues to the City	\$37,768,496	\$1,548,508,342
Personal property tax revenues	\$2,796,742	\$170,737,070
Enterprise Zone Tax Credit reimbursement revenues	\$3,820,718	\$156,649,445
Hotel occupancy tax revenues	\$1,170,281	\$85,845,000
Energy tax revenues	\$1,142,818	\$69,366,170
Personal income tax revenues - residents	\$14,390,911	\$838,806,444
Personal income tax revenues - employees	\$13,100,360	\$799,758,112
Transfer tax revenues	\$1,452,596	\$59,556,418
Local recordation tax revenues	\$968,397	\$39,704,278
Additional revenues	\$2,463,419	\$153,357,685
Projected city revenues	\$79,074,737	\$3,922,288,964
Brownfield payment to Maryland State	(\$4,653,853)	(\$190,807,989)
Additional expenses	(\$33,249,318)	(\$1,964,964,276)
Projected City expenses	(\$37,903,172)	(\$2,155,772,265)
Net fiscal impact to Baltimore City	\$41,171,566	\$1,766,516,699

Fiscal Impact, continued

Development District Annual Projected Revenues vs. Projected Expenses



Risk Mitigation

- Risks of financing are addressed:
 - The bonds shall be issued in phases
 - Each phase must demonstrate that the private development can support the debt issued
 - The developer must demonstrate firm funding commitments for the vertical development before the bonds are issued
 - Developer must consent to levy of special tax to cover debt service in the event tax increment revenues are not insufficient

Risk Mitigation, continued

- Continued:
 - Due to the size of the City's funding commitment we intend to utilize a conduit state issuer.
 - This option was contemplated for Westport and based on current accounting rules the City's financial advisors state this would remove the bonds from the City's debt profile.

Port Covington Community Benefits Agreement

- An unprecedented Community Benefits Agreement address four main goals:
 - local hiring /living wage
 - affordable housing
 - school funding
 - workforce development

Direct City Benefits Commitment – Over \$100M

- **\$39,000,000** - in direct benefits to the six surrounding communities of Port Covington
- **\$55,000,000** - in other direct city-wide benefits including workforce development initiatives, education programs, college scholarships, recreation facilities and youth summer jobs
- **\$6,500,000** - in incremental costs for prevailing wages agreed to by Sagamore
- **\$35,900,000** - in land previously privately held by Sagamore will transfer to the City - total value of the commitment could be \$135,900,000 at full build-out
- **\$20,000,000** - is projected to be paid out in the first five years

Direct City Benefits Commitment

- Sagamore has agreed to a mandate that 30% of work will be performed by Baltimore City residents. Permanent and temporary construction.
- Sagamore has agreed to provide income-restricted residential units equal to 20% of all residential units at Port Covington, including units for very-low income households with incomes at or below 30% of area median income. At least 60% of these units must be provided on-site.
- School funding - Sagamore has also made a commitment not to request issuance of any TIF Bonds if there is a projected negative impact on State education funding for Baltimore City Schools, unless there is a clear plan in place to mitigate the projected negative impact.

