

STATE CENTER SUMMARY

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&

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INTRODUCTION

The State Center project is a 28-acre State office campus located in Baltimore's Cultural Arts area of the Midtown Benefits District. As the State's office buildings located there have reached the end of their useful life, in conjunction with the nine surrounding neighborhoods, the State of Maryland has determined that it is in the best interests of the State and the City of Baltimore to redevelop these office buildings into mixed-use, Smart Growth, Transit-Oriented Development (TOD). The key objectives of this plan are to:

- Reconnect the 28-acre campus with its nine surrounding neighborhoods;
- Renovate and replaced the State office buildings with highly efficient and sustainable office space; and
- Create a dynamic mixed-use environment that will include residences, offices, commercial spaces, street level retail and public spaces.

The purpose of this briefing summary is to detail the rationale for this project, both from a pragmatic point-of-view – to replace office space for State workers – and from a visionary perspective – to continue Baltimore and Maryland's leadership in urban redevelopment practices. This will attract other development and economic energy into the State and the City.

Phase 1 Approved Program

State-leased Office Space:	515,000 square feet	<ul style="list-style-type: none">• The amount of State office space at State Center remains the same before and after the project thus having no impact on the Central Business District.
Speculative Office Space:	15,000 square feet	
Retail Space:	65,000 square feet	largely consisting of a grocery store
Residential Units:	60 – 100 apartment units	
State Parking Garage:	928 spaces,	the majority of which are for State employees

1. The Congress of New Urbanism Award

In May 2010, the ***Congress for the New Urbanism***, a respected international smart growth organization, awarded the State Center Transit Oriented Development project with its prestigious ***Charter Award***, commending the project as one of the seven best smart growth redevelopment projects in the world. The awarding committee noted that the project reflects excellence in both concept and community participation.

2. Significant Support for State Center

Because of the significant benefits that the State Center TOD project will bring to Baltimore City and to the State of Maryland, the project has received support from a broad constituency including:

- Three consecutive Baltimore Mayors
- Baltimore City Council
- Baltimore Urban Design and Architectural Review Panel (UDARP)
- Maryland Governors from both parties
- Maryland General Assembly budget committees
- Maryland Board of Public Works
- State Center Neighborhood Alliance which represents the nine neighborhoods and nine institutions that surround the project site
- Downtown Partnership of Baltimore Board of Directors
- Greater Baltimore Committee (GBC) Board of Directors
- Significant smart growth organizations including 1,000 Friends of Maryland and the Central Maryland Transportation Association.

3. Positive Impact on Downtown Baltimore

The State Center TOD project has been specifically designed in a way that benefits downtown Baltimore. The State has committed to retain the same size workforce both at the State Center site and in the City's traditional downtown area as exist today. In addition, the project has been designed to bring investment, residents and new taxes to a site that currently divides communities and pays no taxes to Baltimore City. Please see the attached maps showing the site and surrounding institutions (Attachment 1) and its place within an economic growth strategy for the downtown based on transit (Attachment 2). The transformation of the site will help lift the economy of the entire City, including the downtown.

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 leasehold interest of the property to the private sector, Phase One of the State Center Project will generate tens of millions of dollars in new taxes for the City and for the State during just the next twenty years, and hundreds of millions of dollars from the entire project over the next few decades.

In an effort to discredit this immense benefit to the City, some have incorrectly stated that the project plan includes \$314 million in 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 true.

The facts are that Phase One of the project is estimated to generate \$50 million in City taxes of all types during the next twenty years with a portion of these taxes going toward repaying a \$10-\$15 million TIF bond that will be used to pay for City-owned public infrastructure, including improvements to streets, sidewalks and utilities – these funds do not go to the private developer. Therefore, the City will receive significant new net tax revenues and improved infrastructure that are much needed at the site. Although future phases are not yet defined or approved, the same magnitude and principle will be true for each phase of 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 Central Business District would generate a negligible number of new jobs. Therefore, from a jobs perspective, the State Center Phase One is the vastly superior 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 direct, indirect and induced construction jobs and 156 permanent new City jobs (excluding State workers). In contrast, relocating a few thousand State employees to space scattered across the Central Business District generates no new construction and thus almost no new jobs.

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.

Some important facts:

- 1) The master development entity, State Center, LLC, is 33% minority owned and the managing member, PS Partners, is woman controlled.
- 2) The vertical development entity for the commercial portion of the development is 50% minority owned and the vertical development entity for the "350 for sale" housing component is 100% minority owned.
- 3) The developer has committed to having the general contractor team include 35% minority participation.
- 4) 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. Dispersing the agencies to existing office space across the City would achieve none of these goals.

4. Opportunity to Transform Baltimore

The State Center Project offers an opportunity to transform the northwest section of Baltimore's downtown by bringing significant benefits to the Cultural Arts District, the University of Baltimore, the Maryland Institute College of Art (MICA), Maryland General Hospital, the Lyric, the Meyerhoff Symphony Hall and the nine surrounding neighborhoods. Vacating the site will leave a 28-acre concrete hole in the center of the area that will have a blighting and negative impact on the nine neighborhoods and on the surrounding institutions for decades. The State will not inflict this harm on Baltimore City by vacating the site – an option suggested by some.

5. Leveraging Private Investment for Public Good

The State Center Project offers an opportunity to bring significant new private investment to the City. Consider this:

- 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 entire five-phase State Center Project will require more than \$1 billion in new private investment in the City.
- Phase One of the project has only 15,000 square feet of for-lease office space.

These investments, 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.

TRANSIT ORIENTED DEVELOPMENT IS GOOD FOR BALTIMORE

A few have stated 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 the New Urbanism's* bestowing of one of just seven Charter Awards on the project in May 2010.

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.

THE PROJECT REPRESENTS A MODEL FOR A FAIR AND TRANSPARENT PROCESS OF INVOLVING AS MANY STAKEHOLDERS AS POSSIBLE IN THE LEVERAGING OF STATE ASSETS FOR PUBLIC GOOD.

All stages of the State Center Project have benefited from thorough and comprehensive State, local and public planning and participation. Available on the State Center website (www.statecenter.org) is a list that identifies more than 270 formal meetings where the project was discussed and reviewed.

The developer, State Center, LLC was selected through a competitive process that included representation from the surrounding communities. The project was designed with input from hundreds of meetings with the community, City and State Government.

The replacement of two members of the development team was reviewed and approved by the State consistent with the law and improved the team's strength and diversity. An informal committee of State department Secretaries, four State legislators and the Maryland Stadium Authority, with participation by the City, also provided review and input on all key decisions. The State Board of Public Works thoroughly reviewed and approved all project agreements and the project process through five separate approvals. Documents for the project have been posted on a public website (www.statecenter.org) for all to see throughout the project's history.

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

1. Public ownership of the site and buildings is an infeasible and inferior option for the State and the City

The State 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 primarily 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.

2. The State considered dispersing the State Center agencies to vacant space in the downtown Baltimore City business district and determined it to be an inferior option.

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:

- 1) There were no sufficiently large blocks of vacant space to house the agencies in a compact way.
- 2) By spreading out the State's agencies, rather than consolidating them, the State would suffer a decline in operational efficiencies and effectiveness.

Please see Attachment Three for a table comparing the two options.

3. A public-private partnership approach results in the State paying market rents for the office space while the developer receives *below market* returns.

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 rent of \$25.85 in FY14 represents market rents for new construction. This conclusion was further confirmed when the General Services Administration negotiated a \$39.00/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 \$29.00/sq ft triple net rent rate for SSA, a rate that is

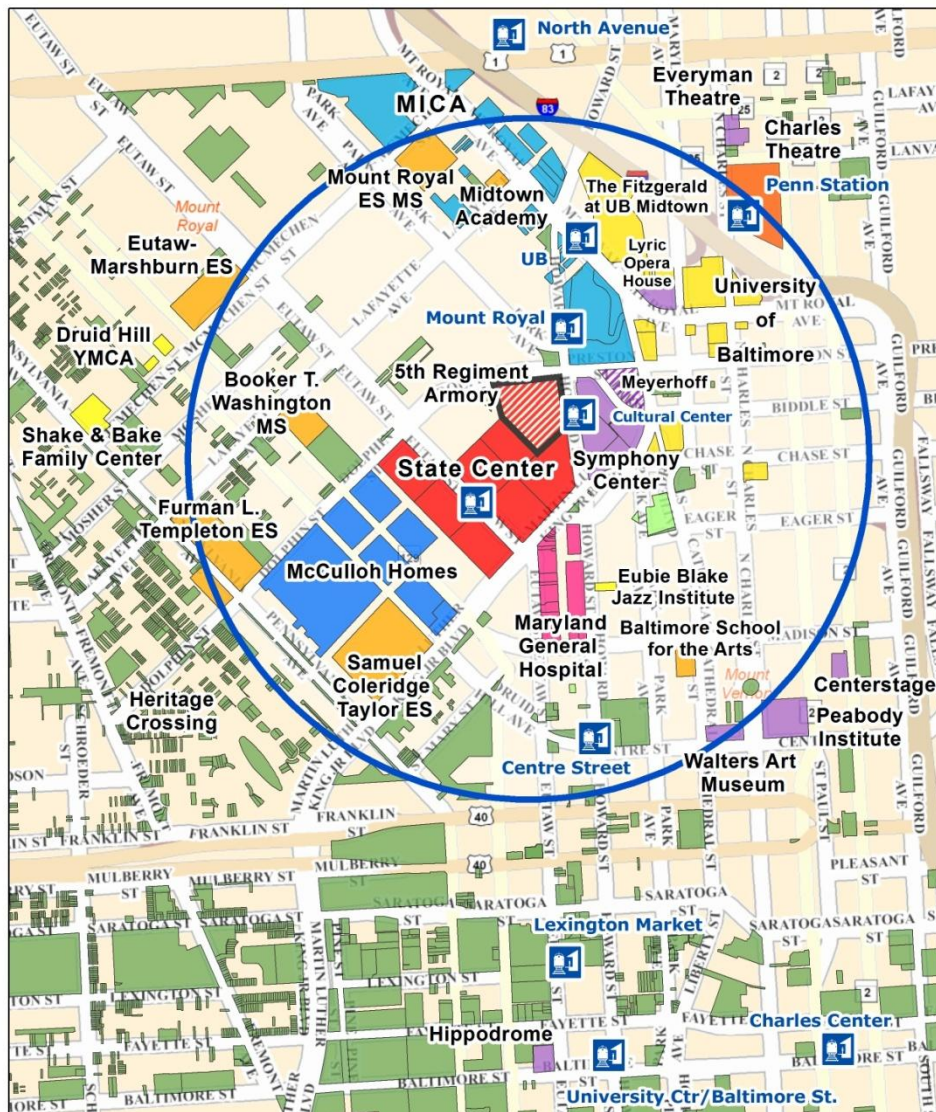
a about \$3.00 higher than the State's office rent rate at State Center - a project that is similarly structured.

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 (IRR) of 14% - 17%, which is below market. The State Center 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.

Attachment One

State Center Will Help Anchor the Cultural District

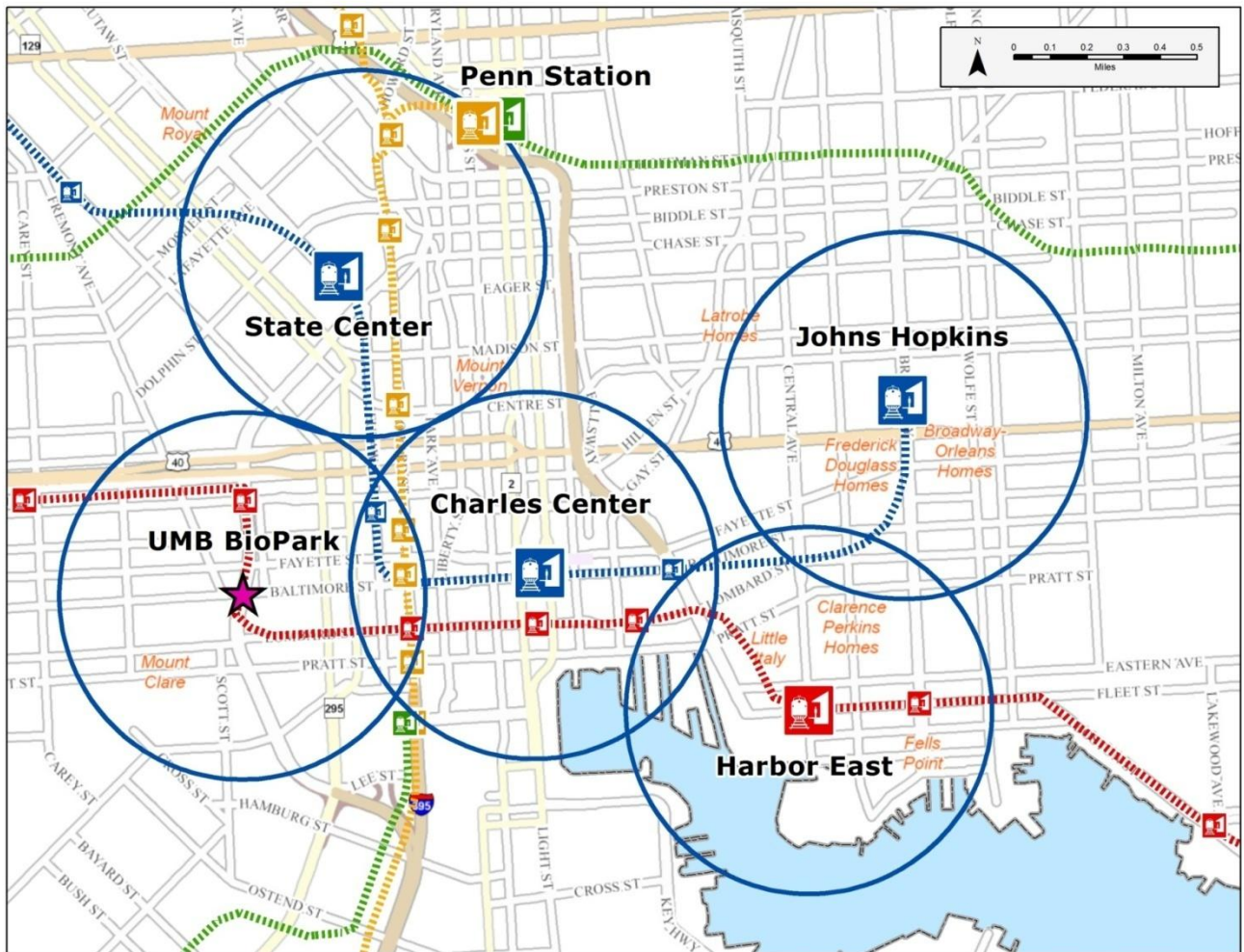
Map showing the State Center site located within the Cultural District with identification of key cultural, educational and public institutions that will benefit from the project.



Attachment Two

State Center Project Is a Key Component of a Transit-based Economic Growth Strategy for the City

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.



Attachment Three

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 jobs – Direct, Indirect and Induced	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