Minutes of the
Navy Hill Development Advisory Commission
October 19th Working Meeting

Saturday, Oct. 19, 2019	9:00 AM	Richmond Police Training Academy Auditorium (Room 103)

Members Present
Pierce Homer (Chair), John Gerner (Vice Chair), Mark Gordon, Grindly Johnson, Suzanne Long, Dr. Hakim Lucas, Mimi Sadler, Michael Schewel, and Dr. Corey Walker.

Call to Order
Pierce Homer called the meeting to order and welcomed the attendees. These included City Council member Kimberly Gray.

Introductions
Individual commission members introduced themselves.

Disclosures
Grindly Johnson disclosed that she had contributed to the political campaign of Mayor Stoney in 2016.

Approval of Minutes of the Previous Meeting
Minutes of the October 5th meeting were approved.

Freedom of Information Act (FOIA)
The commission received a FOIA request concerning Dr. Lucas' appointment, and promptly provided requested documents and email messages. These are available on the website at:
http://www.navyhillcommission.org/FOIA_Request_Documents-Dr_Lucas_Appointment.pdf

Presentation about the Commission Financial Model
Vice Chair John Gerner provided this presentation. Topics included: the due diligence process involving the proposed arena bond financing plan; key arena bond debt parameters; planned bond payment sources; the overlap between the Navy Hill fund and the City of Richmond's future general fund: incremental real estate taxes from existing properties in the increment financing area during the next five years; the accelerated bond payment schedule; goals of the advisory commission's financial model; confirmation levels for bond payment sources in general; current confirmation level for arena sponsorships and the development parcels; causation versus correlation; cannibalization potential; Hunden effect; and next steps. His presentation slides are available at:
http://www.navyhillcommission.org/John_Gerner_Oct_19_Presentation.pdf

Press Coverage:
Richmond Times-Dispatch ("Scrutiny of public financing intensifies after $1.5B downtown redevelopment deal clears Planning Commission"):
https://www.richmond.com/news/local/scrutiny-of-public-financing-intensifies-after-b-downtown-redevelopment-deal/article_1caab9eb-9ad0-5edc-86f7-03a695ec71c5.html

Richmond Magazine ("Arena Bonds Raise Questions"):
https://richmondmagazine.com/news/news/navy-hill-development-advisory-commission-meeting/

VPM ("Preliminary Report From Navy Hill Commission Emphasizes Risk In Redevelopment Project"): https://vpm.org/news/articles/7813/preliminary-report-from-navy-hill-commission-emphasizes-risk-in-redevelopment/

VPM ("Developer Sold Naming Rights To Proposed Richmond Arena, But Won't Say Who Bought It"): https://vpm.org/news/articles/7908/developer-sold-naming-rights-to-proposed-richmond-arena-but-wont-say-who-bought/

NH District Corp Response to Presentation
After the meeting, NH District Corp provided its Correction of the Record in response to the presentation. That is available on the Navy Hill commission website at:
http://www.navyhillcommission.org/2019-10-23_NHDC_Correction_of_the_Record.pdf

Commission Member Questions
Dr. Hakim Lucas asked a series of questions to be addressed in future commission meetings. These are attached.

City Administration and Developer Requests
Lenora Reid, Acting Chief Administrative Officer for the City of Richmond, requested that City Administration and its financial advisors provide another presentation to the commission in the future as part of its ongoing dialogue about the project. Michael Hallmark, a member of the development team, asked that it be given the opportunity to make its case directly to the commission.

Expert Advisor Initial Comments
Professor David Merriman, tax increment financing expert at University of Illinois, provided his initial written comments. These are attached.

Public Comment Period
Dave Johannas, John Moser and Allan Chipman spoke at the meeting and later provided details in the attached email messages. Birkett Becker said the liability of the Navy Hill project rests on the City of Richmond, not the developer, and that the City should lease its property. Michelle said she's seen some progress downtown and that she supports the project. Jessica Shim said she was worried about the impact of the arena funding method on future funding for Richmond schools. Chelsea Higgs Wise recommended that Dominion sponsor the current coliseum rather than the City build a new arena. Sandra Antoine said she supported the project because of it would benefit less fortunate citizens. Arthur Burton was concerned that bond details are not in the proposed contract. Jasmine Leeward represents Richmond For All and requested the opportunity for her group to give a presentation to City Council. Written public comments by some who did not attend the meeting are also attached.

Adjournment

Audio Recording
Available at:
http://www.navyhillcommission.org/2019-10-19_Navy_Hill_Commission_Meeting.mp3

Critical Questions in Response to the Financing Model of the Navy Hill Project
by Dr. Hakim Lucas

1. The assumptions of project success and City benefit hinge on the Developer's surety that the project will generate a surplus - why should we be confident in their surety?

2. Bond investment as private wealth building opportunities and equity investing. How can minority individuals and small to mid-level businesses participate and benefit from the financial and business model? Participation and benefit are key terms to define for all and are key processes that need to be outlined.

3. Considering the anxiety of a 30-year TIF and a turbo approach to mitigate risk - Question: What were, if any, other options or strategies considered. Why or why not?

4. If the arena is the anchor project, it seems to be heavily reliant on real estate development. If we don't know sponsorships, what is the specific business model for the arena? Specific revenues?

5. Social impact of financing and business model of project conveyed through the ordinances approval by council. What protections do we have that the community benefits detailed are sustainable?

6. Are there any forms of social enterprise efforts underway to be an economic partner in this project? Similar to that of VCU.

7. Details around how workforce development and job training, community re-entry, and university-based academic preparation be achieved?

8. Does this project divert any funding from public schools?

9. Is the affordable housing associated with the project considered replacement housing? What is the impact on Gilpin Court?

10. How will this project impact minority communities and small businesses in comparison to other cities such as Baltimore? Mitigate that effect? Adjust expectations?

RE: Davenport & Hunden Presentations

Merriman, David F <dmerrim@uic.edu>
Tue 10/15/2019 12:58 PM
To: Pierce Homer <piercehomer@navyhillcommission.org>
Cc: John Gerner <johngerner@navyhillcommission.org>

Hi Pierce and John

I have finally spent just a little time looking at the materials you sent. I'm not sure how I can help but a couple of quick reactions

1. Neither of the presentations provide anywhere near the level of detail needed to assess the accuracy of the calculations. I'm sure there are many other documents with much more detail so I don't mean this as a criticism of the presentations.
2. The Davenport presentation provides some aggregate figures for things like new tax revenues and bond expenditures. It is not clear whether these are present values of simply adding over all of the years. Of course, for project this long the timing of revenues and expenditures is quite important in assessing the net impact.
3. Also, I was unsure why the Davenport presentation focused so much attention on tax exempt real estate since this real estate will not contribute property tax revenue (unless there is some special provision that I am unaware of).
4. Also, on the Davenport presentation there was some discussion of "incremental" no property tax revenue. In most states the only incremental revenue which the TIF district automatically redirects is property tax revenue. I was unclear whether there was some special provision in the Richmond Hill development plan.
5. I was struck on slide 28 of the Hunden presentation when they say that "HSP sees no net cannibalization of city revenues." It is unclear here what the word "net" means but surely one of the most important questions to answer is the extent to which new development might displace activity in existing (or other potential) development. Thus, the HSP conclusions seems to me to (at a minimum) distract attention from a vitally important issue.

I am happy to answer specific questions or to look at some more materials if that would be of use to you.

From: "Brown, Meghan K. - Council Chief of Staff Office" <Meghan.Brown@richmondgov.com>
Date: September 4, 2019 at 9:58:00 AM EDT
To: Pierce Homer <piercehomer@navyhillcommission.org>, John Gerner <johngerner@navyhillcommission.org>
Subject: FW: Davenport & Hunden Presentations

Chair and Vice-Chair,

Attached are electronic copies of the Davenport and Hunden presentations from yesterday's Council Organizational Development meeting.

Thank you,

Meghan K. Brown
Interim Council Chief of Staff
Office of the Chief of Staff
RICHMOND CITY COUNCIL

To: The Navy Hill Development Advisory Commission
From: Dave Johannas, AIA

Dear Commissioners,

Regarding the Navy Hill development, to expand upon Saturday's Commission meeting, I would like to offer a few additional comments:

Existing shortcomings in the Navy Hill district consist of major infrastructure hurdles including demolition of the colosseum, remnants of the 6th Street Marketplace, and the Public Safety Building. Additional infrastructure work necessary to bring this district to viability includes filling the Clay Street tunnel and reconnecting the street grid at the south side of the Public Safety Building. In response to the Mayor's RFP for Navy Hill, the development team has presented a solution which fixes the infrastructure, provides a transportation center, builds an arena, provides high-density housing including affordable units, provides a new convention hotel, renovates the Blues Armory, constructs office buildings, and creates a new retail base for downtown, all with minority participation.

The design solution is packaged in this way to achieve the critical mass necessary for success. The Hunden Report states that the "Navy Hill development is a transformational project" and "has the ability to re-energize a currently depressed and dormant area." The quarter-mile buffer has a current population of 545 residents and 26,122 employees, and the half-mile buffer has 9052 residents (4656 in the labor force) and 62,054 employees, numbers which soar when connected to the Pulse Corridor. The solution adds 9000 employees, affordable housing, a premier office building to attract additional corporate presence downtown, and another office building, most likely for MCV office and research use. The design also connects to Courts End and the VCU Medical Center with a linear park, allowing MCV's current 18,000 employees to easily walk the district.

While the City's current growth rate is roughy 11% per decade, the City's central wards and neighborhoods, from Scott's addition to Church Hill to Manchester, may be closer to 20%. Although we can contemplate successes in other cities, Richmond's current strength can buoy this project, and what it provides to the community.

One of the anchors of this concept is the arena, a sophisticated music venue for mixed programming. The 500-room convention hotel, which will afford an increase in the size of events that the Convention Center can service, as well as increase the variable base population of the district.

One ill-conceived recommendation from the public at the October 19th meeting was to convert excess blighted areas into parking lots, basically replacing blight with blight.

While this development aims to a locale disassembled in the era of urban renewal, the intent is not support other downtown districts which are stable. Our downtown growth-planning strategies include the BRT Pulse Corridor Plan and upzoning along the BRT area and Monroe Ward, and we are watching their success.

Construction is underway on 700,000 square feet of the adjacent medical center. Recently developed downtown entertainment and cultural venues are successful, and their aura continues to attract more services and patrons. A new arena and a renovated Blues Armory will enhance the momentum of the Broad Street Arts District. The introduction of a grocery store will protect this area from becoming a food desert. The addition of the public spaces, the linear park and piazza at the Blues Armory, will create a sense of place in the district.

I understand that this Commission does not have purview over programming, zoning, design, or urban planning for this project, and that the Commission's responsibility is to review designated ordinances. However, Saturday's discussion raised questions regarding benefits or impacts on adjacent areas. The discussion questioned the concept of mixed uses in the development, and opined on piecemeal, individual property sales. These alternative recommendations require evaluation by ones with additional skill sets and education in planning and large-scale neighborhood development, including an understanding of the scale and scope of each element, infrastructure cost, special services, the transportation center, public space enhancements, how to reach a critical mass, etc.

The proposed plan is excellent. It is essential to appreciate the cohesiveness of this concept when reviewing the project, and to understand that the current conditions do not support an isolated livable, walkable district. The mix of uses provides a cohesive, diverse, neighborhood, with office, retail, public services, entertainment, residential development, and connectivity to the greater downtown. The location is unique in its physical connection to an enormous labor force at the MCV medical center, the biotech neighborhood, and the adjacent workforce. The City cannot afford the reconstruction of infrastructure to support a buildable street grid. The Hunden Report states that it "sees no net cannibalization of the City revenues" and that "the regional use of the Arena, the new hotel and other newly constructed attractions will draw new revenues to the city…." This is a comprehensive neighborhood plan for Richmond.

I hope this perspective provides a bit more insight and understanding of its benefits. Thank you for your efforts, time, and continued service to this commission.

Dave Johannas, AIA

Business:	Home:
Johannas Design Group	711 Byrd Park Court
1901 West Cary Street	

Follow up to October 19th meeting

John Moser <jmoser@moser-productions.com>
Sat 10/19/2019 2:54 PM

To: Pierce Homer <piercehomer@navyhillcommission.org>; John Gerner <johngerner@navyhillcommission.org>
Cc: Chris.Hilbert@Richmondgov.com <Chris.Hilbert@Richmondgov.com>; Lisa F. - City Council Liaison Townes <lisa.townes@richmondgov.com>; Kimberly B. - City Council Gray <Kimberly.Gray@richmondgov.com>

Dear Mr. Gerner, Mr. Homer and the entire Navy Hill Development Advisory Commission,

Thank you, once again for the work you are doing and the commitment you've made to assist the City of Richmond through the evaluation of the Navy Hill ordinances. I can't say often enough how important this process is and how refreshing it is to have this review process, which I believe to be an unprecedented method for evaluating a development project in Richmond. I am also especially thankful for the work that Mr. Gerner did to make his presentation today on the project's finances.

I am writing to follow-up today's meetings with a few comments and questions:

1. Related to today's presentation on project financial projections and discussion of real estate taxes: At the end of the meeting today, I asked if the financial projections for the project are based on a constant real estate tax rate. The answer I got was "yes." I actually had not thought about this issue until today's meeting, when Mr. Gerner was speaking about the importance of real estate tax revenues to the project. If I am interpreting Mr. Gerner's comments correctly, what I heard was that real estate taxes are the most important source of revenue to the project and are considered to be one of the more stable data points in the financial analysis.

What we have been told repeatedly by the developers and the city administration is that there are no new taxes to be levied for this project and no "special assessments" or fees within the TIF district. But what if the real estate tax rate is changed by the current administration or a future one? What effect would a lowering or raising of the real estate tax rate have on the financial outlook and viability of this project?

Our current administration has raised various taxes (ex: the meals tax) several times to raise revenues. Most recently, in the last budget cycle the Mayor pushed very hard for an increase in the real estate tax rate, ostensibly to fund the school budget and make road improvements.

With regard to the Navy Hill project, it is not difficult at all for me to imagine a scenario where tax revenues from the project fall short of targets and this Mayor or a future one proposes a real estate tax increase to counter revenue shortfalls to cover repayment of the bond, or for any number of other reasons that might be in support of the project, or to augment the city budget as the bond repayments siphon off new tax revenues from the TIF zone.

A less likely scenario would come into play if the city decided to reduce the real estate tax rate. This, I believe, is supposed to be considered when property assessments rise significantly. In practice, I think real estate taxes are rarely lowered for that reason. However, the city did lower real estate tax rates recently, after the great recession that began in 2008, as a way to reduce the tax burden on city residents and businesses during an economic crisis. Suppose we have another economic crisis. Will the city be able to consider a lower tax rate, or will the pressure to generate revenue to repay the coliseum bond mean that the needs of city residents will take a back seat to paying off the developers of the proposed new coliseum?

2. The relationship between the city and the EDA, and the readiness of both organizations to deal with this project: Having expressed certain concerns about the EDA's role in this project previously, I will not repeat those specific concerns. However, new information came to light in the presentation made to City Council by the city administration and the developer group on October 7 at City Hall that I will describe here:
During the October 7 presentation, starting at about 10 minutes into the meeting, there was a discussion about the roles of the EDA and the city administration in the management of the project. During the presentation it was stated that "the functions of the EDA are to be performed by the city administration." This struck me as strange, given that I believe one of the ideas behind even having an EDA is to have a non-governmental agency that can carry out certain business of the city at arms-length, so to speak. I think that one reason the separation exists is to allow the EDA to conduct the business of certain projects without being encumbered by policies and procedures that the city would normally be required to adhere to, such as certain procurement laws. In the parlance of the Navy Hill developer, they need a "conduit."

However, if the city is conducting the business of the EDA, then the intended separation would appear to be broken as the roles of city administration and it's "conduit' are co-mingled.

Further, I do not think the city is well prepared to take on these roles. Later in the October 7 meeting, at about 25 minutes into the meeting, Mr. Sledge of the city administration stated that the EDA does not have staff or a budget to manage this project and he said that the city admin was in the process of having a "purposeful" dialogue to address staffing needs for the project. This tells me that there is no definite plan in place at this time for how the city will manage the project.

Yet, as is often the case with these projects, there is a great burden upon the City Council to approve the so called "deal" up front and then let the city figure out the details later.

3. City Council's post-approval ability to review the development of the project details is likely insufficient: Another item from the October 7th presentation that is a great concern relates to the ability of City Council to review and approve the construction details of the project. At about 32 minutes into the meeting, there is a discussion indicating that the city will have approval of the project master plan, but after that, the contractor will be responsible for "everything" including design and construction of the project.

There is a lack of clarity in these comments that is alarming. I do not know, yet, if the ordinances detail a specific process for public (City Council) review of the ongoing details of construction of the project, but what I do know is that master plans are rarely adhered to very closely and the details (where the devil lives) are in the construction documents and contracts for construction. I would very much like for any ordinance approving a project such as this to have binding commitments for public review of construction contracts and documents.

Those are all my comments for today. As always, my comments and the issues I raise may or may not be germane to your mission to evaluate the ordinances. To the extent that you can incorporate my concerns into your scope-of-work, I would appreciate it if you could please do so and I offer any help I can provide at any point. Since there are some items above that may fall outside your defined role, I am copying this correspondence to my City Council representative and to Councilwoman Kim Gray, who originally pushed for the creation of this committee.

Best regards,
John Moser
Lifetime city resident and 3rd district resident since 1986

PSG@SmartGrowthRVA Twitter Thread Conversation on October 9,2019

PSG realizes that a proposal such as #NavyHill Redevelopment Project requires careful vetting. Therefore, our policy team has pinpointed 12 questions for consideration:

1.) What is the City's rationale for outsourcing the public outreach and design discussions to the developer?

2.) Why didn't the City hold a public process to first create a small area plan to reflect community desires and needs?

3.) Will the City conduct an analysis that will compare the economic development and net revenue to the city that would result from bidding and selling out individual parcels versus the current proposal?

4.) Will the proposal generate more tax revenues and generate revenue faster than any other approach?

5.) Should the City allocate such a significant share of future tax revenues to pay for a new Coliseum, or should future tax revenues be allocated to schools and other needs?

6.) Will the new Coliseum attract enough revenue to merit the public investment? Are the projected revenues from a new arena realistic?

7.) Should the counties join city taxpayers in paying for a new arena since it would be a regional asset?

8.) W/ the arrival of the Pulse Bus Rapid Transit and significant redevelopment in progress, how much downtown development is likely to occur without taxpayer subsidies? Will an analysis be done to analyze likely development and revenues in the absence of the Navy Hill proposal?

9.) Do we need a bus transfer center and, if so, what is the best location in relation to the Pulse line? Does the Navy Hill/Coliseum proposal for a transfer center up to three blocks away from the Pulse line make sense?

10.) How much affordable housing is included in the proposal, and what income levels is it targeted to? How much affordable housing should the proposal contain?

11.) What percent of the affordable housing would be integrated on-site, and how much would be at other locations in the city?

12.) Is the proposed financing arrangement the most beneficial for the City? Does the advisory committee have adequate and independent financial expertise at their disposal to fully vet the financing?

We all care about #RVA and how our downtown develops. That is why we must thoroughly analyze and evaluate this proposed development. Visit https://psgrichmond.org for more information on how you can get engaged in this influential project.

Lauren Fishbein
Coordinator for Policy and Administration
Partnership for Smarter Growth
Richmond Smart growth Learn More
https://www.psgrichmond.org/

Question for the Commission

Charles Skelly <cskelly@ibewlocal666.com>
Sat 10/12/2019 2:39 PM
To: All Members <members@navyhillcommission.org>

Navy Hill Commission members,

I have been a City of Richmond resident for nearly 20 years. I have been in the construction industry for longer and currently represent over 1200 Central Virginia electricians at IBEW Local 666. Over the years representing workers I can tell you first hand that many of the projects done in the city, including city projects currently underway have misclassified workers supplied by labor brokers. These brokers do not pay proper taxes on their workers and the workers do not have basic labor protections such as unemployment or workers compensation if they are hurt on the job. This tax avoidance business model cripples state and local government.

Furthermore, this low road business model ends up in more money in developers pockets and less in the average construction workers pocket. The average worker from the region having more money will help support the local economy when they are paid a fair wage.

I would like to know how we can ensure the 12,000 construction jobs the plan documents say will be created will be good paying jobs with benefits?

As a representative of a construction Labor Union, I am sure that hiring contractors that use Union workers will ensure that there are not labor brokers on a job and everyone on the project would make a living wage and have benefits.

Best regards,

Charles Skelly
Business Manager
IBEW Local 666
(804) 928-6661

Please use Registered Apprenticeships and Prevailing Wages

Jason Biniasz <jbiniasz@rjatc.org>
Mon 10/14/2019 10 36 AM
To: All Members <members@navyhillcommission.org>

Hello,

I am a resident of the Museum District and an instructor at a registered apprenticeship. It is important to me that construction is done with registered apprenticeships and prevailing wages. These are the projects that can educate and elevate the citizens of this fine city making our city that much stronger.

Sincerely,

Jason Biniasz
Instructor
Richmond Electricians' JATC
11255 Air Park Road
Ashland, VA 23005-3436
804-752-8466 ext 5
www.RJATC.org

Public Comment for NH Project

drowe1624@comcast.net
Fri 10/18/2019 12 07 PM
To: All Members <members@navyhillcommission.org>

Thank you to the Commission for volunteering your time to evaluate this Project. I have a few questions:

1) I'm concerned about the first 6+ years before the Project begins to generate the projected funds for the City. How will an already cash-strapped city and underfunded school system manage? What is the plan, specifically.

2) Why are the Dominion Towers included? What is the financial impact to the Project if Ferrell decides not to build the 2nd tower?

3) Will Mr. Crom be able to assess the financials and if so, will his assessment be publicly available?

4) Were assessments done on the city-owned parcels that are part of the NH project? If not, how did the city arrive at the price of 15.8 mil? How do you sell something if you don't know it's value? Who negotiated the price of 15.8 mil?

I'm a city resident currently living in the 3rd district.

Thank you.

Debbie Rowe

Labor

Joe Jernigan <jjern@aol.com>

Fri 10/18/2019 5 47 PM

To: All Members <members@navyhillcommission.org>

I am a retired electrical contractor and I reside in the second district. I support the navy hill project and am looking forward to the new coliseum. I do have some concern on the labor side of the project. That area is the use of labor brokers, in my experience they have in the past misclassified workers on other municipal projects. I hope these brokers will not be part of the workforce if approved. Thanks for the opportunity to express my concerns.

Navy Hill Public Comment

aaron robinson <aaronrobinson@contractor.net>

Fri 10/18/2019 7 09 PM

To: All Members <members@navyhillcommission.org>

My name is Aaron Robinson, I am a City of Richmond resident and an electrician member of local union 666 here in Richmond, I am in support of the Navy Hill Project, I do have questions and comments as follows:

In this time of growing inequality, what is being proposed to be sure that the construction workers made a living wage with benefits and that the benefits will not all go to the developers and prime contractors?

What will be done to assure that labor brokers are not providing the construction workforce for these projects if approved?

WRITTEN PUBLIC COMMENT FROM JEFF CARTWRIGHT, 4th DISTRICT RESIDENT

JeffCartwright<jeffrey.cartwright@gmail.com>
Sat 10/19/2019 10:24 AM

To: All Members <members@navyhillcommission.org>

According to the October 14 Davenport presentation, all of the Bond Proceeds will go the Arena. Section 6.5 of the Development Management Agreement provides:

"… on Financial Close the Developer will be entitled to receive an amount equal to $2,000,000 in order to retroactively compensate the Developer for its Work on the Project up and until the Financial Close."

The definitions of "Project" and "Arena Project" are found in the Recitals of the Development Agreement (Recitals L and B, respectively).
The definition of "Work" is under Section 1.3 of the Development Agreement.

This provision would compensate the Developer for Work done on the entire Project, not just the Arena Project.

Therefore, at the Financial Close, the Developer will be immediately entitled to $2,000,000 of the Bond Proceeds to be compensated for work other than the Arena Project.

What does that mean about Davenport's assertion that all Bond Proceeds go to the Arena?

Navy Hill Commission - October 19 public comment

Todd Waldo <todd@hughhelenllc.com>
Sat 10/19/2019 12:46 PM
To: All Members <members@navyhillcommission.org>

Thank you to all of the members of the Navy Hill Development Advisory Commission for today's meeting. Appreciate your efforts to help us research and evaluate this opportunity for our city. This kind of investment in entertainment, business, housing and retail is exciting and I support that idea. The details of the opportunity do require more scrutiny and refinement to help ensure the benefit to our citizens and mitigate the risk to our citizens as well. A few requests and suggestions in that regard:

Would like to see us design the accountability to the EDA from both City Council and citizens for operating the arena other responsibilities to bond holders

Seems to be a gap in the ability of EDA staff to manage the project. What is the plan to oversee the arena operator and build the expertise needed?

We really need to articulate the benefit to general fund and other city services where as now there seems to be little to no benefit until at least 5 years from now (around $300M direct to Navy Hill Fun only).

Over time, what is the yearly benefit to citizens? Can we timeline what will be delivered and how that benefits citizens? If we can state per year, the intention to create housing, business, restaurants, retails and revenue then citizens can see what they gain. The benefit to citizens should be the driver to this opportunity not the return to developers and bond holders.

We need to be deliberate to help access the opportunity for citizens, businesses and investors and how this help us bring more equity and wealth to those who have less access now, especially people of color.

I want to encourage continued growth for our city but not at the expense of future citizens and administrations. The arena and all the associated project have the potential to help move our city forward. I want to make sure we do all that is necessary to secure that potential.

Thank you.
Todd Waldo - resident and business owner in the City of Richmond,

--
Todd B. Waldo
Founder and Principal Consultant
Hugh Helen LLC
Passionate problem solvers developing solutions for client success and social good.

Navy Hill Commission

Colin & Tammy <cmktrk@bellsouth.net>
Thu 10/17/2019 12:54 PM
To: All Members <members@navyhillcommission.org>

1 attachments (49 KB)
CMK's thoughts on the proposed Navy Hill Redevlopment.R2.pptx;

Dear Commission;

As Mr. Homer was quoted in the RTD article on August 31, "... to look at a $1.5B project and a couple of thousand pages, that's a daunting task"

Fortunately, reviewing 1000 page documents for mega projects is pretty standard fare for me.

I have, (and still do), developed, built and operated projects that range from $200M to several billion dollars.

I am familiar with all faucets of a mega project: from the sales pitch aspect, to allocating the imbedd ed risks, to executing the multitude of contracts.

So, with an educated eye, I reviewed the 900+ pages of documents on the City web site

Attached is a 5 slide PowerPoint file that contains my assessment of the Navy Hill Proposal

In summary,

I identified 24 errors/inconsistencies in the documents and 9 significant commercial issues that nee d to be addressed.

I strongly advocate that each of these errors/inconsistencies and the 9 commercial issues be vetted & addressed prior to any City Council vote on the Proposal

Lastly, for all successful projects, big or small, privately or publicly funded, in the end "the details do matter".

If these errors are cleaned up and the 9 commercial issues are addressed, I could support this proje ct

Hope this information is helpful.

Colin M. Kelly PE
1706 Hanover Ave
Richmond, VA 23220

PS: Unfortunately work has me out of Town until Mid Nov, and thus I will miss most of the public meetings

Review of the Navy Hill Redevelopment Proposal

Review of documents posted by the City of Richmond up through August 7, 2019

“success is in the details… “

Summary:

A. This is a very well thought out and prepared Proposal

B. Kudo's to the person or persons that submitted questions back in May 2018, they addressed and clarified numerous issues which, in my mind made the Proposal stronger.

C. There are nine (9) commercial issues that should be raised and closed out with the developer prior to approving the Proposal (see slides # 3 & # 4 for details).

D. There remains 24 errors and inconsistencies in the Proposal, these should be clarified and resolved prior to approval (see slide # 5 for details).

E. The sensitivity case conducted by Davenport & Company dated 8/7/2019, specifically Scenario 4, is a weak stress test which lacks some basic sensitivities. After cleaning up the errors/inconsistencies noted on slide # 5, an additional sensitivity case/stress test should be run to confirm the project's economics,

F. If the points noted above are addressed, the data in the Davenport report are factual, and a strong "stress test" (commercial issue # 9) confirms the economic viability of the project, I would support the Proposal.

Commercial Issues that should be addressed

1. Non-Recourse Financing of Bonds: Please clarify that if this statement includes the Richmond Economic Development Agency (EDA) or any other City agency that will issue the bonds. Also, please describe what events would happen if the Bond payments were not made after depletion of the bond reserve, (shut down the Arena? Arena put into receivership? increase the Lodging, Admission or other taxes or increase the TIF footprint?). This worse case scenario should be fully vetted with all parties.

2. The status of Leigh Street improvements: This needs to be resolved prior to approval. Language in the proposed development agreement should point out who will perform this work and fund this improvement ($24M) if VDOT does not approve, or approval is not timely, of the Smart Scale Application.

3. Arena Size: Page 5 of the Proposal list 9 other arenas, with an average size of 14,346. Seven of the arena's listed are somewhat isolated being 3+ hours from any competition/major cities. That is not the case with Richmond, actually, the other two arenas are near major cities, and they have the lowest capacity in the listing. With the data presented, I do not see a justification for going above 14,000 (~20% reduction in size should translate into a sizeable reducation in cost).

4. Block C: The City and Developer need to agree on what to do with the proposed GRTC Transit Center before approval. This is too big of an issue to be solved later. Binding specifics need to be established. Personally, I think a bus transit center is an outdated concept.

5. Traffic study: Lack of a defined traffic plan was a major factor that soured the new baseball stadium in Shockoe Bottom. With a potential substantial increase in the Arena size and an increase in # of events, traffic will be an issue. New turning lanes, designating one-way roads and new signaling/ signage will likely be required. The cost of these improvements must be factored into the proforma and the project schedule.

Commercial Issues (cont)

6. Bond interest rates: The rates used in the financials should be updated, they are 18 months old. Additionally please explain why there is no interest is earned on the Bond Reserve fund ($15-$17M)?

7. Capital Improvements: The proforma did not show any long-term capital improvements. Reasonable - defined capital cost estimates to upgrade, improve or renovate the facility at years 10 and 20 should be included in the proforma.

8. Construction Contract: The Arena construction contract should include language to address: a) some level of contingency, the estimate by Gilbane on page 470 does not show any, b) states that the contractor assumes all subsurface risks, c) has specific monthly construction milestones that are tied to specific monthly payments and d) has liquidated damages (LD's) for missing a defined set of milestones.

9. Stress Test: The sensitivities stated in the Davenport Report are appreciated. However, a worse case scenario/sensitivity case should be run with the following assumptions: a) the City funds Leigh Street improvements, b) there are at least two recessions in the 30 year life of the bonds (thus depressing bond revenues), c) after bond issuance and during the construction phase the Arena project is delayed by 3 months (due to subsurface issues, archeological issues, design issues or other unknows), d) the addition of long-term capital improvements noted above and e) includes the Guarantee Maximum Price stated on slide 31 of the Davenport Report.

Errors and inconsistencies

After the Redskin Park/Stone Brewery deals and GRTC/RPS school cost overruns most residents are skeptical of any new grand proposals by City officials. Simple put the City's credibility is low. To help validate the Proposal a listing of 24 errors and inconsistencies is provided below that I feel should be revisited & revised:

<u>I- The initial Proposal dated Feb 2018 and the May 2018 response/update: 1)</u> it states that the new retail space will not cannibalize exiting retail, pragmatically it is hard to imagine that the existing Broad Street and E Grace (btw 9th and Belvidere) vacant store fronts will not be impacted, specifically the fill-in rate assumption of 50k sq ft/yr is above recent averages for Richmond and does not reflect the cyclical nature of the economy, pls revisit and revise, 2) What are the new Music Hall and Armory Taxes as listed throughout the documents, specifically on Schedule XX? 3) Why were the Base Property Market Values used throughout the documents, specifically on Schedule XII not escalated? Note the City Budget assumes a 5%/yr increase in all properties, 4) the Food Market revenues are optimistic at best, pls revisit and revise, 5) The apartment selling rate is established as at $400/sq ft see pages 304 & 330 in the Proposal, with existing market values at ~$200/sq ft this needs to be revisited and revised, 6) the Arena is designed for 17,500 but the Arena economics state 15 sold out events with 8,200? See page 282, pls explain, 7) the documents state 9,000 new residents in 10 years, but apartment fill out (~5000 residents at 2p/aprt) is forecasted within 5 yrs, pages 304 and 428, absorbing over 50% of future growth in one project seems overly optimistic, pls revisit/revise, 8) the Proposal summary states 50 FTE Arena jobs, but the detailed Arena economics states 33 FTEs, see page 288, pls revise? 9) Soft Cost Summary table on page 471 indicates an unaccounted Soft Cost of over $7M, pls define, 10) pages 484-5 state 6,551 construction jobs with labor cost of $390M, this equates to $60K/yr per FTE. This does not reflect prevailing union or merit wages (including employer taxes & benefits) for electricians, plumbers, steel workers, carpenters, ect. Same issue with Residential Construction, the Proposal states average FTE wages of $35k/yr or $17.5/hr. pls explain why the labor rates used are below prevailing pay rates, 11) It is unclear who will pay for the Grand Ball Room operating & maintenance expense, pls define, 12) its unclear what entity will pay for the street lighting: capital and operating cost, 13) What entity will maintain the r-o-w and greenspaces, I personally do not want to see another Monument Ave roundabout or Cary Street crosswalk issue, where City improvements are left to "others" to maintain, 14) What entity will be responsible for the capital and operating cost of the new ventilation and lighting for the garages that will be wrapped with apartments? 15) the May 8, 2018 response mentions a pending May 22, 2018 meeting, see pages 81, 82 and 83, pls provide any notes or material from that meeting, 16) will allocating excess Lodging Taxes to the Arena bonds impact the GRTC's ability to fund capital projects?

<u>II- Davenport Report dated Aug 7, 2019</u>: i) slide 4, has a new Revenue entry of $15M for land sales, pls explain, ii) pls explain the basis for the reduction in the Dominion Tower assessment, as stated on slide 15. iii) on slide 17 the chart assume $900M is spent in year 1? practically this can not happen, pls explain/revise, iv) slide 18 states "10's of millions of reoccurring revenues", but the Proposal on slide 15 states excess revenues will be used to accelerate bond payments to reduce interest payments, please explain this double accounting, v) the No-Project/Base Case on slides 19,24, 35 does not reflect the normalized growth that would occur in Richmond which is used to form the basis for numerous Proposal assumptions, pls revise, vi) on slide 35 why was the Admission Tax revenues not decreased like the other items? vii) slide 25 states the City DPW will not be responsible for trash collection, seems odd, are trash disposal cost in the operating expenses for the Hotel, Amory and Arena? Also this section detailing DPW cost does not include any cost to maintain the new green spaces, viii) slide 27 & 28 note that the cost related to relocating Social Services and additional students are TBD, any financial analysis with key components labeled as TBD essentially invalidates all the preceding economic statements, pls make best estimates and revise the financials.

Written Public Comments for October 19th Navy Hill Independent Commission Meeting

Allan-Charles Chipman <allan-charles.chipman@iofc.org>
Tue 10/22/2019 5:07 PM

To: All Members <members@navyhillcommission.org>
Cc: John Gerner <johngerner@navyhillcommission.org>

3 attachments (2 MB)
ACLU concerns with Municap.pdf; Tischler Bise Municap Report Port Covington.pdf; Municap acting as administrator for short pump town center.pdf;

Good Afternoon,
My name is Allan Chipman. I live in the 3rd district. I spoke with you on Saturday regarding my concern with the quality of analysis done by Municap due to a Maryland ACLU lawsuit in 2016 that raised similar concerns as Mr. John Gerner. I have attached the ACLU concerns with Municap as well as the financial report of the independent firm Tischler Bise critiquing the Municap study.

The ACLU lawsuit & Tischler BISE study found regarding Municap's analysis:

- The benefits and revenue to the city and residents were speculative and overstated. The financial risks were understated and the risks were largely unacknowledged.
- There was a lack of a market analysis in the TIF application. This lack of analysis was noted as "unusual" and "troubling."
- There was a lack of a sensitivity analysis to stress test key assumptions and projections under varying scenarios and market conditions. The projections were based on only a single optimistic set of assumptions about market conditions & key variables
- There are serious questions as whether the "But For" test has been met. While our arrangement is TIF by contract the "But For" test is a great tool to determine whether the TIF project is creating or capturing existing revenue.
- The analysis appears to overstate revenues and understate costs
- The revenue estimates are overstated and extremely misleading in that they have not been discounted to present value.
- Municap had used an inappropriate methodology in their fiscal analysis that "fails to truly reflect how new development impacts the provision of facilities and associated operating costs."
- Multiple potentially conflicting roles that MuniCap plays in connection with a single project. Prior to issuance of bonds Municap served as the financial consultant to the city . Once the bonds were issued, Municap, transitions into the role of administrator. I have attached a form that appears to show that Municap also transitioned into administrator for the Short Pump Town Center.

I think it is important to note whether or not Municap will serve as administrator for this project if the bonds are issued. This may serve as a conflict of interest if they are to receive more business from the city upon issuance of bonds.

Given our understanding that the specifics of the bond will not be revealed until after City Council approves the papers, I believe it is my duty as a citizen to note this potential conflict of interest between the Chair of the EDA, John Molster, and The President of NH District Corp C.T. Hill. John Molster is the managing director of BB&T Bank. C.T. Hill is a retired Suntrust executive who worked there for 42 years. BB&T and Suntrust have now merged to become Truist Financial Corporation. I believe procedures of oversight, transparency, and accountability are greatly needed.

Thank you,

Allan-Charles Chipman

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Initiatives of Change
United States

AMERICAN CIVIL LIBERTIES UNION of MARYLAND FOUNDATION

Municap concerns raised in Baltimore Port Covington TIF

July 27, 2016

Honorable Jack Young, President
Baltimore City Council
City Hall, 4th Floor
100 N. Holliday Street
Baltimore, MD 21202

Re: Opposition to CC 16-0669, 16-0670 and 16-0671
Port Covington Tax Increment Development District, Bond Issuance & Special Taxing District

Dear Mr. Young and Members of the City Council:

AMERICAN CIVIL LIBERTIES UNION OF MARYLAND

Thank you for the opportunity to submit testimony on the proposed Port Covington Tax Increment Financing Project and these three bills authorizing the creation of the Development District, Issuance of Bonds, and creation of a Special Taxing District. The ACLU of Maryland is OPPOSED to the three bills in their present form.

The ACLU of Maryland has a long record of working toward racial equity in housing, education, criminal justice, and opportunities for youth in Baltimore City. That experience informs our evaluation of the Port Covington proposal. Our evaluation is also based on careful analysis of the Tax Increment Financing Application, FastLane Application, and Memoranda of Understanding executed by the City and the master developer, Sagamore Development Company, the real estate arm of Under Armour CEO Kevin Plank. While we understand that only the legislation authorizing TIF financing incentives for the Port Covington project are before the City Council at this time, in order for the Council members and other public officials to evaluate whether the risks of the TIF financing are sufficiently justified by the benefits to the City of Baltimore and its citizens, the financing issues must be evaluated in context and informed by information gleaned from other publicly available documents.[1]

Our analysis of the project and the legislation leads us to conclude that in its present form, the project is both financially and socially irresponsible. The benefits and revenues to our City and residents are speculative and overstated, while the financial costs have been understated, and the risks largely unacknowledged. In addition, from a racial equity perspective, the Port Covington project will further entrench segregation in an already hypersegregated city, and impose those costs on the predominantly African American residents and taxpayers of the City, while the benefits will largely accrue to a future workforce and population that is by design, predominantly white, affluent, and not currently residing in Baltimore City.

[1] This is especially the case given that there is no single document, supported by relevant data, that thoroughly and cogently describes the project in any detail or sets out its potential risks as well as possible benefits.

overestimated.[8] We do not know, and neither apparently does the developer.

- In fact, the projections for debt service and repayment of the TIF bonds are highly dependent on the successful build out, and leasing, of the apartment units. If residential demand, and thus revenues, proves to be less than anticipated, it will present a serious risk of default on the TIF bonds.

- **TischlerBise notes that the lack of a market analysis in the TIF application is unusual, and describes it as "troubling."** They conclude that "a full-scale market analysis should be included with a TIF application, especially given the immense size of the City's proposed investment in infrastructure to support the project's feasibility."[9]

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- **Lack of a 'sensitivity analysis' to stress test key assumptions and projections under varying scenarios and market conditions:** The TIF application presents a host of projections regarding costs and revenues based on only a single, optimistic set of assumptions about market conditions and key variables. But in business, it is customary and good practice to run the same projections through a variety of variables and market conditions, including best and worst case scenarios.

MuniCap

  - TischlerBise raises an important red flag about the lack of a sensitivity analysis in MuniCap's analysis: "In our experience it is always in a City's best interest to have multiple scenarios evaluated that test variations in the timing of development and even the mix of uses…we think the City should attempt to understand the impact on financing arrangements if growth were slower than expected …this is especially important given the complicated nature of the financing and the need for a Special Tax as a bridge financing source for the TIF bonds, which would also affect the amount of Surplus Property Tax Revenue being projected in the analysis."[10]

  - If the analysis was performed but not disclosed, the non-disclosure of such material information raises red flags about what the analysis might have revealed.

[8] "*Have U.S. Cities Reached 'Peak Millennial*?" CityLab (March 16, 2016); "*Baby Boomer Mass Migration, Fact or Fiction*?" Multifamily Executive (June 8, 2016).

[9] Memorandum from TischlerBise, Inc. to Rob English, Baltimoreans United in Leadership Development, *Analysis of Sagamore Development, LLC's TIF Application for Port Covington* (July 12,3016), Executive Summary, p. 4.

[10] *Id.*, at Executive Summary, p. 3.

- **These concerns are not just theoretical. The independent experts at TischlerBise are troubled by evidence that the project does not 'pencil out,' because the amount of TIF subsidy for non-revenue producing amenities is too rich.**

    - Most TIFs are structured so that the revenue "increment" will always cover debt service, with a provision for a Special Tax as a backstop in the event that revenues are insufficient for a limited period of time to prevent default. As TischlerBise points out, it is cause for concern that in this case the **Special Tax payments are not a backstop but the planned source of debt service for nearly 20 years before the project breaks even and begins to generate revenue.**

    - **The fact that the public investments are frontloaded while private investment is backloaded heightens concerns about feasibility and the risk of default.** Private investment in office, retail, and residential uses that generate tax revenues are not scheduled to come until *after* massive spending on park and open space amenities has already occurred (amenities that will be deeded to the City to maintain but that are not taxable). This means that it is largely public, not private, funds at risk while the market for the project is being discovered. It also means that the City could once again be stuck with expensive infrastructure for a Port Covington plan that does not materialize. TischlerBise recommends that the deal be restructured to guard against this by pushing the larger infrastructure improvements down the line, and moving up the private development.[11]

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- **There are serious questions as whether the "But For" test has been met.** The 'But For" test requires not only evidence that the project is infeasible without public subsidy, but evidence that it will be feasible with that public assistance. As to the first part of the test, the narrative discussion of the quantitative "but-for" test does not show that the project is not financially feasible absent the TIF. The TischlerBise findings also raise key questions as to whether the project, as currently planned, is feasible even with the massive public incentives. This is due in part to the subsidy for parks and open space amenities.[12]

- **The TIF application appears to overstate revenues and understate costs, requiring a more thorough and independent analysis:**

    - **The revenue estimates in the TIF are overstated and extremely misleading in that they have not been discounted to present value.** Sagamore and the City administration have touted the revenues projected

[11] *Id.*

[12] Based on our review of the line items in the TIF application, we calculate that about $150 million of the $535 million in TIF financed land development is budgeted for these open space amenities, rather than traditional infrastructure like roads, sewer, water, etc. This is more than 27% of the total.

to accrue to the City net of debt service and increased operating costs — $1.734 billion or an average of $40.34 million per year. But theses revenues will accrue over a 41 year period, with most of the revenues backloaded to the years after 2036. Because a dollar today is worth more than a dollar in the future, in determining benefits economists look at the present value of those dollars, not the nominal value in current dollars, especially given the long-term horizon of this project. In fact, hidden within the TIF, is a figure for the value of the revenues to the City **discounted to present value: $227,388,642.**[13] This much less impressive figure is generally not mentioned by either Sagamore or Administration officials, including in their oral testimony at the Planning Commission.

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- **BUILD's experts, TischlerBise, also identified a number of areas where they believe costs to the City are underestimated, further reducing the net benefit to the City.** These include operating costs to various city departments and capital expenditures omitted from the TIF cost projections. TischlerBise also opined that MuniCap had used an inappropriate methodology in their fiscal analysis, and that this "fails to truly reflect how new development impacts the provision of facilities and associated operating costs."[14]

- **Questions about MuniCap's role requires that the City Council table the TIF until it can obtain an objective and independent financial analysis.** The fact that MuniCap is part of a public financing industry that promotes TIFs inherently raises concerns about potential conflicts of interest and the firm's ability to objectively critique a TIF deal. But like many, we were surprised to learn of the multiple, and potentially conflicting, roles that MuniCap plays in connection with a single project. This includes the Harbor Point TIF, already troubled by cost overruns, where MuniCap describes its involvement as follows:

> "Prior to the issuance of bonds, MuniCap, Inc. served as the financial consultant to the City, preparing the TIF plan of finance and feasibility analysis in conjunction with the developer. Once bonds were issued, MuniCap, Inc. transitioned into the role of administrator to the Harbor Point Development and Special Taxing Districts."[15]

Will Municap play a future role in Richmond?

Thus, it is in MuniCap's business interests that the TIF move forward. In this regard, their interests are more closely aligned with those of Sagamore

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[13] *Tax Increment Financing Application,* supra, Schedule XVII.

[14] Memorandum from TischlerBise, Inc. to Rob English, Baltimoreans United in Leadership Development, *Analysis of Sagamore Development, LLC's TIF Application for Port Covington* (July 12,3016), Executive Summary, p. 2.

[15] MuniCap, Inc., Case Studies, Harbor Point Project, Baltimore, Maryland. http://www.municap.com/case-study-harbor-point-md.htm.

than the citizens of Baltimore. As with the Harbor Point project, in the Port Covington TIF application it is difficult to tell what was prepared by Sagamore, what was prepared by MuniCap working "in conjunction with the developer," and what part was prepared by MuniCap ostensibly scrutinizing the deal on behalf of the City and the public's interest. The City Council's duty to the taxpayers of Baltimore and public require it obtain a 'second opinion.' The City Council should also prohibit any firm that plays a role in evaluating the TIF from subsequently seeking a contract (from the City or the developer) to administer any aspect of the development should a TIF be approved.

- **Given the planned use of the initial bond proceeds, there is no reason to rush approval of the TIF without first completing the City's due diligence.**

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One of the puzzling aspects of the City's rush to approve the Port Covington TIF and Master Plan is the lack of any apparent sound reason for doing so. Initially, it was claimed that TIF approval was needed as evidence of a local match for the federal FastLane transportation grant. But the denial of that application removes that factor. Slowing down the TIF approval process to allow for the appropriate due diligence will not delay construction of the Under Armour expansion which Sagamore has said does not depend on TIF financing. Nor will it delay Sagamore's mixed use project.

According to the TIF application, the first series of bonds scheduled to be issued in June of 2017 will *not* be used to pay for installation of roadways, sidewalks, water and sewer utilities, stormwater management or similar infrastructure needed for construction to proceed. The only land development costs slated to be covered by the first series of bonds are two new public open space areas in Port Covington and an "archeological pier" at a cost of $49 million without any other infrastructure to facilitate the public use of these amenities.[16]

III. Racial and social equity issues

Increased Segregation: The residential component of Port Covington will not only perpetuate Baltimore's racial segregation, but recreate it in an uninhabited area where it does not currently exist.

The dominant element of the Port Covington Plan is the residential component, originally projected in the TIF at 5,329 units, then ballooning to 7,500 units, and finally orally announced by Sagamore's representative at the Master Plan hearing to have grown further to a request for zoning that will allow 14,000 units. At even the lowest number, this is the massive building of a city within the city. The bulk of the 7,500 or 14,000

[16] Sagamore Development Company. (2016). *Tax Increment Financing Application.* (p. 150). BUILD's expert, TischlerBise, has termed these "unconventional" and questioned whether they are appropriate uses of TIF bonds; Memorandum from TischlerBise, Inc. to Rob English, Baltimoreans United in Leadership Development, *Analysis of Sagamore Development, LLC's TIF Application for Port Covington* (July 12, 2016), Executive Summary, p. 2. (The balance of the $64 million in Series A Phase 1 bonds will cover fees, capitalized interest, and a reserve).

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EXECUTIVE SUMMARY

TischlerBise was retained by BUILD to analyze several aspects of Sagamore Development LLC's Tax Increment Financing (TIF) application for Port Covington in Baltimore, MD (submitted May 23, 2016). TischlerBise was asked to concentrate its examination on the fiscal impact analysis included in the application. In addition, we were asked to provide high-level analysis of the application's TIF bond usage and estimated job development and profit projections.

TischlerBise, Inc.'s, qualifications for reviewing the Port Covington TIF Application are based on the firm's almost 40 years of experience providing fiscal, economic and planning consulting services to public and private sector clients. In summary, TB's experience in the areas of fiscal impact analysis is unsurpassed, having prepared more fiscal impact analyses and fiscal impact models than any other firm in the country.

Our project manager for this assignment, Carson Bise, AICP, has twenty-five years of fiscal, economic, and planning experience and has conducted fiscal, economic and impact fee evaluations in thirty-seven states. Mr. Bise has developed and implemented more fiscal impact models than any consultant in the country. The applications which Mr. Bise has developed have been used for evaluating multiple land use scenarios, specific development projects, annexations, urban service provision, tax-increment financing, and concurrency/adequate public facilities monitoring.

Mr. Bise has written and lectured extensively on fiscal impact analysis and infrastructure financing. His most recent publications are *Fiscal Impact Analysis: Methodologies for Planners*, published by the American Planning Association, a chapter on fiscal impact analysis in the book *Planning and Urban Design Standards*, also published by the American Planning Association, and the International City/County Management Association (ICMA) IQ Report, *Fiscal Impact Analysis: How Today's Decisions Affect Tomorrow's Budgets*. Mr. Bise is also featured in the recently released American Institute of Certified Planners (AICP) CD-ROM Training Package entitled *The Economics of Density*.

Mr. Bise is currently on the Board of Directors of the Growth and Infrastructure Finance Consortium and recently Chaired the American Planning Association's Paying for Growth Task Force. He was also recently named an Affiliate of the National Center for Smart Growth Research and Education at the University of Maryland in College Park.

The Port Covington project represents a key redevelopment opportunity for the City of Baltimore. The project is consistent with both the *Middle Branch Master Plan* and the *South Baltimore Gateway Master Plan*. Both plans are clear in their recommendations that the Port Covington area should transition from an industrial area to a mixed-use center. TischlerBise feels strongly that the City of Baltimore ultimately need to approve this development project and be a financial participant. However, the question is – at what price to City of Baltimore tax payers?

There are several issues we identified during our review of the Port Covington TIF Application information that should be considered when determining what level of public subsidy should be entertained for this proposed development. We offer the following findings:

- **The Fiscal Impact Analysis Lacks Basic Information.** The fiscal impact analysis prepared by MuniCap lacks basic background information. For example, the report provides no narrative containing the methodology employed, how data was gathered, or even the extent to which MuniCap interacted with or interviewed City of Baltimore staff to derive the cost and revenue assumptions used in the fiscal impact analysis. Rather, the reader is directed to general footnotes at the bottom of spreadsheets to derive any information at all.
- **City of Baltimore Operating Costs Are Understated.** MuniCap lists some expenses as "not impacted" by the Port Covington development. Although we agree with the assumption that certain costs are fixed, we disagree with the notion that entire divisions of certain departments would not be impacted. In particular, areas where we believe costs are understated include Sheriff, Police, Health, and Transportation.
- **Capital Impacts Are Not Included.** The MuniCap fiscal impact analysis excludes an evaluation of the impact of the Port Covington development on City of Baltimore capital facilities. We know from the TIF application that numerous capital costs for interchange improvements, an inner-development circulator train, and a light rail extension, for instance, are assumed to be financed by either the Tax Increment Finance district or various state or federal grants/contributions. We also know that the developer proposed to include some land for parks and open space as part of the development. The analysis appears to assume that this is the limit of any impacts on City infrastructure as a result of Port Covington, which is almost certainly not the case. The proposed development could necessitate capital expenditures related to fire, police, general government, schools, water, and sewer.
- **The Methodology Used for Projecting Operating and Capital Costs Is Inappropriate.** As discussed in more detail in the body of this report, the fiscal impact analysis prepared by MuniCap uses essentially an average cost approach. A major problem with the average cost approach is that it masks the impacts of the timing and absorption of new development, and as a result, fails to truly reflect how new development impacts the provision of facilities and associated operating costs. For example, the MuniCap analysis assumes a cost of $244.85 per service unit (which includes personnel and operating costs) for the Fire Department, regardless of location in the City and proximity to particular fire stations. This is misleading because fire and emergency services are not provided in increments of $244.85 per service unit. A better methodology would be the case study-marginal approach, which would include variables such as proximity to Port Covington and existing call volumes, call capacities, and current response times. These factors would determine if and when the Fire Department will require additional space and apparatus to meet level-of-service and response times.
- **Multiple Scenarios Should Be Evaluated.** The MuniCap fiscal impact analysis evaluates one scenario. This scenario assumes development beginning around 2020 and ending around 2040. In our experience, it is always in a City's best interest to have multiple scenarios evaluated that test

variations in the timing of development and even the mix of uses. The City should be informed of the impact of different mixes of land uses. For example, consider how the retail sector of the economy has changed over the last 10 years (especially with the rise of online retailing), or the impact 3-D printing will have on the need for industrial space in the future. We are presently involved with several clients who have developers with approved master plans requesting amendments for more residential units and a reduction in retail space due to current market conditions. Given the complicated and precise financing arrangements being proposed, we think the City should attempt to understand the impact on financing arrangements if growth were slower than expected or if a different mix of land uses were built. This is especially important given the complicated nature of the financing and the need for a Special Tax as a bridge financing source for the TIF bonds, which would also affect the amount of Surplus Property Tax Revenue being projected in the analysis.

- **The Proposal Includes Unconventional Use Of TIF Bonds.** TIF bonds are most frequently used as a method for financing the infrastructure needed to attract development to an underutilized site – the infrastructure "but for" which private development would not occur. Typical improvements usually relate to roadways and sidewalks, transit, water and sewer system improvements, stormwater trunkline extension, and telecom ductbank installation. The TIF application for Sagamore includes requests for TIF bond-financing for a number of infrastructure improvements that appear to go above and beyond what many other developments in the region and nationally usually request to meet the "but for" criteria, instead providing exceptional aesthetic or experiential benefits to visitors, employees, or residents. For example, the application calls for the TIF financing to pay for the road preparatory work for a new rail-in-street trolley circulator system, kayak landings and trails, constructed wetlands, and micro-biorentention systems. In fact, TischlerBise frequently sees park, schools, and storm water improvements financed by developers and maintained by property managers over time or deeded to a City for continued construction and maintenance.
- **The Need for a Special Tax Is Not Highlighted Adequately.** With TIF districts, there is always the possibility that the tax increment will not cover debt service payments. However, the fact that the need for nearly 20 years of special tax revenue is anticipated before the project even breaks ground is troubling, particularly given the scope of the Port Covington proposal. To TischlerBise, this schedule means the project, as currently construed, does not "pencil out." The timing of the development schedule must be adjusted such that more private development occurs earlier along the development timeline in order to boost tax revenues to support future debt service payments. In other words, it may be the case that the City needs to adjust the TIF debt issuances to ensure larger infrastructure improvements are pushed to a period further down the line. Any adjustment of the capital improvement schedule should be done in conjunction with the developer so as to ensure a full public-private partnership.
- **Job Projections are Adequate.** TischlerBise found that job projections were completed with an appropriate methodology. However, we caution project stakeholders that these results must be properly framed during discussions on the future of Port Covington. The net impact of job growth within the project site and its value to Baltimoreans must be understood in the context of in-migration (i.e., some workers moving to the metro area or commuting from outside the City to fill the jobs) and job displacement resulting from new development (i.e., cannibalization of some

economic activity from the Central Business District or other parts of Baltimore). From a citywide fiscal perspective, if job simply relocates within Baltimore, this is essentially a net neutral move.

- **The Lack of Market Analysis Is Troubling.** TischlerBise notes the lack of a comprehensive market analysis and accompanying narrative for this project. One of the most important project revenues is land sales, which hinges on assumptions about demand and absorption rates market and vertical development returns (following initial land development). However, the report does not include discussion for demand for new residential and nonresidential development. Likewise, square footage estimates for market comparables are included but without detailed explanation. Finally, more detailed information on the vertical development return expectations is excluded from the report. The inclusion of a detailed market analysis could ameliorate these concerns. Although certain market analysis content is included in the fiscal impact analysis and pro forma sections (e.g. sales per square foot by type of retail), a full-scale market analysis should be included with a TIF application, especially given the immense size of the City's proposed public investment in infrastructure to support the project's financial feasibility.
- **The Pro Forma May Understate Land Acquisition Costs.** It appears calculations were only made using Sagamore's current land acquisition investment of $114,731,000. If the developer must also acquire some portion of the additional approximately 100 acres in the development area, what will it cost and why is it not included in the total development costs?
- **The IRR Is Adequate, But Not Exceedingly High.** The pro forma projects an unleveraged Internal Rate of Return (IRR) of -1.90% without the TIF infrastructure bond revenues and 9.24% with the TIF revenues. The application notes that the latter figure is in line with IRRs reported in the *Fourth Quarter 2015 PwC Real Estate Investor Survey*. This survey noted that development IRRs ranged from 10% to 20% nationally, with an average of 15.50% during the fourth quarter. Acceptable IRR is subjective and dependent on the inclinations of the investor and the context of the development. For example, a project with a very high IRR may not be desirable to an investor if he or she must stake a large share of initial capital. Likewise, a project subject to a large number of exogenous risks (e.g., a complicated entitlement project, uncertain market conditions, or a difficult development site or location) will probably be less appealing than a less risky project with the same IRR. Therefore, riskier projects may require higher IRRs to attract investors. This is particularly true when developing in an unproven area or when a large amount of investment is required, such as Port Covington. In those cases, desired IRRs may reach into the 20 percent range.

DEVELOPMENT AND TIF APPLICATION OVERVIEW

Port Covington is a 260-acre industrial area with approximately three miles of waterfront between I-95 and the Middle Branch of the Patapsco River. The site is located slightly less than two miles from downtown Baltimore, Maryland.

A TIF application from Sagamore Development, LLC, proposes a new development on the site that would include 5,329 residential high-end multi-family units (both rental and condominium), 1.3 million square feet of retail square footage, 300,000 square feet of industrial/light manufacturing space, a 200 bed hotel, and 4.2 million square feet of office space (including 1.5 million square foot headquarters for Under Armour, manufacturers of sports apparel and related products). In addition, the proposal includes provision of 42 acres of public parks and open space, some of which will provide access to the waterfront, and close to 10,000 parking spaces. In total, the proposal includes the creation of 42 new city blocks, a light rail line extension and two stations, a new off-ramp from I-95, an inter-development circulator train, and a pedestrian and bike swing bridge to the Westport neighborhood.

Sagamore Development controls 161 of the 260 acres that comprise the Port Covington development site. This land acquisition cost approximately $114 million. According to Sagamore's Tax Increment Financing (TIF) application, the majority of the remaining land is comprised of public rights-of-way, City- or State-owned parcels, and parcels owned by the freight company CSX. On the land it does own, Sagamore has already developed—or is in the process of developing—several projects, including an "innovation" center, a seafood restaurant, the *Baltimore Sun's* printing and distribution facility, an Under Armour headquarters campus structure, and a whiskey distillery. The developer plans to see the project through the entitlement and "horizontal" development process, then sell the majority of improved lots to vertical developers. The total project value of the project prior to tract sell-off is in excess of $1.4 billion, with the total development estimated to be more than $6 billion.

The Port Covington site is located within one of the City's Enterprise Zones, which entitles the owners to tax credits. In addition, the site includes several brownfields. Sagamore believes all portions of the development will be eligible for an Enterprise Zone Tax Credit and Brownfields Tax Credit. In addition, Sagamore anticipates receiving various State of Maryland and federal grants, potentially totaling $573 million, to finance highway and local transit improvements. At the federal level, these grants may be secured through the following programs: FASTLANE (Nationally Significant Freight and Highway Projects), Transportation Investment Generating Economic Recovery (TIGER), Transportation Alternatives Program, New Starts/Small Starts, Surface Transportation Block Grant Program, and Consolidated Rail Infrastructure and Safety. At the state level, Sagamore believes the Maryland Transportation Authority may issue bonds to support the new infrastructure needs of the project.

In addition to the Enterprise Zone Tax Credits, Brownfields Tax Credits, and likely State and Federal grants and subsidies, Sagamore is requesting the City of Baltimore create a Tax Increment Financing (TIF) District and issue $535 million in TIF bonds (issued in four series with 30-year maturities over the next 11 years, together maturing in 41 years). Bonds will be held by the developer as developer-held drawdown bonds (paid by the City through the developer) until the development produces sufficient tax revenues to support the debt service, at which time the bonds will be converted to City-held instruments. (The bonds will also be secured by special taxes in the event the available increment revenues are insufficient to repay the debt service.) Together with the costs of issuance (interest, conversion costs, reserve fund, etc.), this investment by the City represents a total amount of approximately $658.5 million.

TIF bond proceeds will be used to fund the construction of various infrastructure and public space projects, including a number of parks and plazas, a pedestrian alley, roadway construction and improvements, waterfront and pier improvements, a rail-based circulator system, a pedestrian and bike swing bridge to Westport, a pedestrian and bike path under I-95, and several highway improvements and specific site work needs projects. As discussed further below, many of these improvements' benefits are limited to the immediate site.

The City's Department of Planning has articulated its judgement that the Port Covington Master Plan is in accordance with the results of past public planning efforts for the site. Baltimore Development Corporation and Board of Finance have already approved the proposed TIF district. The City Council Taxation and Finance Committee is set to consider the proposal in late July 2016.

BROAD ANALYSIS OF THE TIF BOND PROCEEDS USAGE

Tax increment financing (TIF) is a tool through which a public entity attempts to encourage redevelopment and economic development in an underutilized area by earmarking incremental property tax revenue in that area to fund infrastructure improvements designed to ease the cost of development or attract capital investment. Frequently, infrastructure is funded with bond issues that are guaranteed by future revenue growth devoted to pay them back. From some perspectives, this makes TIF projects self-financing. However, this is not entirely accurate, as tax revenues that would be received by a General Fund or other earmarked funds are diverted to a special TIF fund for a specific period of time, and thus, are not available for general expenditures. After a specified time period, the TIF district designation ends and all property tax revenues are funneled back to their original government entities.

Unconventional Use of TIF Bonds

TIF is most frequently used as a method for financing the infrastructure needed to attract development to an underutilized site. Typical improvements relate to roadway widening, modernizing, or construction or construction of sidewalks, extension of transit lines and needed stations or stops, and other multimodal transportation projects to improve connectivity; water and sewer system improvements (e.g. main installation or sanitary lift station construction); storm water trunk lines extension; and telecom ductbank installation. In general, the widely-held theory behind TIF is that the proceeds from TIF revenue bonds should be used to make the improvements “but for” which the development would not occur.

The TIF application for Sagamore includes requests for TIF bond-financing for a number of infrastructure improvements that appear to go above and beyond what many other developments in the region and nationally might request to meet the “but for” criteria. In other words, these requests are not necessary to prepare the site for development, but instead are used to provide aesthetic or experiential benefits to visitors, employees, or residents. For example, the application calls for the TIF financing the road preparatory work for a new rail-in-street trolley circulator system. Another example includes the request for bonds to construct waterfront paths, shade structures and public comfort stations, kayak landings and trails, constructed wetlands, and micro-biorentention systems at a number of parks or improvement of a pier “to allow for accessible retail and entertainment use.”

These improvements (and several others in the application) are less frequently seen in TIF applications. In fact, our firm frequently sees park development and storm water improvements financed and constructed by a developer and maintained by property managers over time or deeded to a City for continued construction and maintenance. Moreover, if the City is experiencing budgetary strain in these areas, funding, operating, and maintaining additional facilities could exacerbate these issues. This may be particularly important when it comes to parks, since the development proposes a large amount of park and open space amenity development as part of its application.

The City has already signaled to private interests, through its planning efforts and the establishment of an Enterprise Zone, that it desires redevelopment of the site in question. Establishment of a TIF district and issuance of TIF bonds could be seen as a continuance of this support. Moreover, some may argue that TIF bond support (and subsequent value-added from publicly-financed infrastructure improvements) only offset that fact that development in poorer areas or center cities are sometimes more expensive that on greenfield sites or in suburban locations. In general, these central sites may have higher land prices and property taxes than suburban locations and brownfield complications, as well as lower quality public services and issues with crime.

However, it should be noted that a host of considerations are at play when a firm or developer is selecting a site for a new capital investment. In all likelihood, property tax incentives such as TIF are probably more likely to influence a firm or developer's decision to locate on a certain site within a metropolitan area rather than impact the decision to locate in a specific region over another competing one. Given the fact that the developer has purchased this land prior to the establishment of a TIF district and plans to relocate the headquarters of a major Maryland corporation to the site, this seems to be true in the case of the proposed Port Covington development.

Special Tax Used for TIF

The TIF application notes that there is risk associated with the development if there are slower absorption rates than projected or if the TIF district generates insufficient property tax revenues for other reasons. To guard against this risk, the application notes that a special tax will be imposed in the district to ensure sufficient revenues are available to cover the annual debt service payments. This special tax revenue is also used to hedge against higher interest rates than anticipated.

However, as it turns out, it's not a question of if the City will have to levy the special tax on the district, but when. As shown in the application's project debt service payments and coverage, the City will have to levy special tax revenue starting in 2021 and continue to do so until 2038. Total special tax revenues are projected to total approximately $292 million in order to cover Series A, B, C, and D debt service.

With TIF districts, there is always the possibility that the tax increment will not materialize quickly enough or sustain strongly enough to cover debt service payments. However, the fact that the need for nearly 20 years of special tax revenue is anticipated before the project even breaks ground is troubling, particularly given the scope of this project. To TischlerBise, this schedule means the project, as currently construed, does not "pencil out." The timing of the development schedule must be adjusted such that more private development occurs earlier along the development timeline in order to boost revenues to support future debt service payments. In other words, it may be the case that the City needs to adjust the TIF debt issuances such that the large infrastructure improvements are not so front-loaded but instead pushed to a period further down the line. Any adjustment of the capital improvement schedule should be done in conjunction with the developer so as to ensure a full public-private partnership.

PORT COVINGTON FISCAL IMPACT ANALYSIS

In general, a fiscal impact evaluation analyzes revenue generation and operating and capital costs to a jurisdiction associated with the provision of public services and facilities to serve new development—residential, commercial, industrial, or other. Maintaining fiscal health in the face of a large-scale development depends on several factors. Perhaps most important in the near term are the incremental costs of new infrastructure and expanded public services, which depend on the current use of existing infrastructure. Because of these costs, projects that require new infrastructure are unlikely to improve fiscal health in the short run. In the long run, the balance of revenue increases and service costs related to operations and maintenance may prove to be the most important influencing factors on the fiscal impact of a development.

It is important to note that fiscal impact analysis should be viewed as one piece of the puzzle when analyzing a potential development. Other issues of importance include public planning efforts around the site, environmental implications, economic development goals, and equity and social justice impacts.

MuniCap, Inc. conducted the fiscal impact analysis of Port Covington included in Sagamore's TIF application. In the following sections, we highlight a number of methodological choices made by MuniCap that may skew or influence results or that diverge with the current state of the practice. These include 1) inflating revenues and expenditures; 2) using average-costing techniques that do not appear to evaluate current operational and infrastructure capacity and levels of service; 3) excluding operating expenditures from analysis that may be impacted by Port Covington; 5) omitting analysis of the capital facility impacts from Port Covington; and 6) including the revenue impacts of indirect or "ripple effect" jobs (even if these are not inputs in the fiscal impact analysis).

Please note that TischlerBise, in conducting background research on the development, noted various proposed development schedules with different numbers of residential units listed (including one mention of up to 14,000 unit). Obviously, a development schedule that differs dramatically from that which is analyzed in the TIF application could change the fiscal impact equation significantly and should be reviewed separately.

Costing Methodology

This section evaluates MuniCap's costing methodology for determining the proposed development's impact on the expenditure side of the fiscal impact "equation." TischlerBise first describes the two most commonly used techniques for costing in fiscal impact analysis: average costing and marginal costing. Next, we describe the strengths and weaknesses of each methodology. Finally, we analyze MuniCap's methodology and point out the ways in which it may skew results.

Techniques

There are two dominant methodologies for conducting fiscal impact analysis: average costing and marginal costing. The average-cost approach is simpler and more popular; costs and revenues are calculated based on the average cost per unit of service multiplied by the demand for that unit. Average-cost approaches assume a linear relationship and do not consider excess or deficient capacity of facilities or services over time. A per capita relationship—in which the current cost of service per person in a community is considered to be the standard for future development—is an example of an average-cost approach.

The most popular average-cost technique is the per capita multiplier. This is obtained by dividing the budget for a particular service, such as parks, by the current population, yielding an estimated service cost per person. Under the per capita approach, it is assumed that each service level will be maintained into the future and that each additional resident will generate the same level of costs to the jurisdiction as each existing resident currently generates. For example, if a parks department budget was $450,000 and the population of the town 45,000, then the average cost would be $10 per capita. This figure is then used to estimate additional costs resulting from new development. The per capita approach is easy to use but has the disadvantage of being less accurate than other approaches if local officials want to look beyond broad levels of overall costs and expenditures. An example of the average-cost technique is shown in Figure 1.

Figure 1: Example of an Average-Cost Methodology

Insert Budget:		FY 2003 General Fund	Unincorporated Service	Special Revenue	Total All Funds	Per Capita Amount
572	Parks/Recreation				$0	$0.00
572	Parks/Recreation				$0	$0.00
572	***Parks/Recreation***	**$482,120**	**-$39,800**	**$16,315,170**	***$16,757,490***	$18.36
572	Parks/Recreation				$0	$0.00
573	Cultural Services	**$3,136,122**	**$9,070,409**	**$5,692,760**	$17,899,291	$19.61
576					$0	$0.00
579	Other Culture/Recreation			**$9,966,613**	$9,966,613	$10.92

Marginal-cost approaches uses locally based case information to describe the unique characteristics of a jurisdiction's operating departments and capital facilities. This marginal cost approach assumes that every community is unique and that the assumptions regarding levels of service and cost and revenue factors should reflect what is occurring in that community. Department representatives are interviewed about existing public facilities and service capacities. Local information on excess park capacity, for example, makes it possible to predict when new facilities, programs, or personnel may be needed. This method also allows communities to include more detail if desired (e.g., to make estimates based on the costs of specific facilities and programs, such as pools, softball leagues, or tennis courts).

Although over the long term, average- and marginal-cost techniques will produce similar results, the real value of fiscal analysis is in the two- to 10-year period, when a community can incur costs. Marginal-cost analysis is most useful in this time frame. However, average-cost techniques are generally simpler to use, so for relatively small development projects with modest impacts or impacts that are realized over a long time frame, they may be preferred. An example of the marginal-cost methodology is shown in Figure 2.

Figure 2: Example of a Marginal-Cost Methodology

PARKS AND RECREATION STAFFING INPUT Category	Base Year FTE Positions	Project Using Which Demand Base?	Current Demand Units Served Per Position	% Estimate of Available Capacity	Remaining Capacity/ Initial Hire Threshold	Estimated Service Capacity Per Position
Environmental Technician	5	UNINCORP POPULATION	137,791	75%	103,343	132,049
Equipment Operator	38	UNINCORP POPULATION	18,130	75%	13,598	18,014
General Crew Leader	2	FIXED	0	0%	0	0
General Manager	4	FIXED	0	0%	0	0
Head Custodian	6	FIXED	0	0%	0	0
Landscape Gardener	6	FIXED	0	0%	0	0
Managers, Divisions/Programs	7	FIXED	0	0%	0	0
Multitrades Worker	39	RECREATION SF	7,363	75%	5,522	7,317
Painter	1	FIXED	0	0%	0	0
Park Manager	20	PARK ACRES	124	75%	93	123
Park Ranger	78.2	PARK ACRES	32	75%	24	32

MuniCap's Hybrid Approach

One of our criticisms of the fiscal impact analysis prepared by MuniCap is its lack of background information. For example, the report provides no information relative to methodology employed, how data was gathered, or even the extent to which MuniCap interacted with or interviewed City of Baltimore staff to derive the cost assumptions used in the fiscal impact analysis. It appears that MuniCap employed a hybrid costing approach that largely relies on average costing, but does incorporate a small element of marginal costing, in that it attempts to determine which programmatic expenditures within each department will be impacted by additional development and which are fixed (rather than just taking each department budget as a whole). However, the analysis does not delve into the level of detail that a true marginal-cost approach would require. An example of MuniCap's hybrid approach is shown in Figure 3.

Figure 3: MuniCap's Costing Methodology

Annual Expenses[1]	Current City Expenses[2]	Basis for Projecting Expenses[3]	Current City Service Factors[4]
Fire communications and dispatch	$5,929,311	service population	837,369
Fire training and education	$3,661,532	service population	837,369
General Services			
Administration - general services	$1,624,614	not impacted	-
Facilities management	$14,553,327	not impacted	-
Design and construction/major projects division	$340,000	not impacted	-
Health			
Clinical services	$4,913,580	service population	837,369
Healthy homes	$885,262	not impacted	-
Substance abuse and mental health	$1,851,443	not impacted	-
Maternal and child health	$922,802	not impacted	-
School health services	$2,618,724	per student	84,976
Emergency services - health	$668,784	service population	837,369
Youth violence prevention	$735,378	per student	84,976
Administration - health	$4,468,511	not impacted	-
Animal services	$3,164,962	per resident	622,793
Environmental health	$3,055,320	service population	837,369
Chronic disease prevention	$373,382	not impacted	-
HIV treatment services for the uninsured	$1,271,409	not impacted	-
Senior centers	$780,750	not impacted	-
Administration - CARE	$377,927	not impacted	-
Advocacy and supportive care for seniors	$99,956	not impacted	-
Community services for seniors	$145,176	not impacted	-

For instance, the department expenditures do not distinguish between different types of expenses (e.g., salaries and wages, benefits, purchased services, internal service charges, and materials). Therefore, the granularity of MuniCap's analysis is limited because programs are either impacted or not: different types of expenditures are not evaluated. Moreover, this also prevents more targeted manipulation to reflect excess capacity or deficiencies in capital facilities or staffing.

Typically, TischlerBise will conduct in-depth interviews with department heads to determine the excess or deficient capacity in schools, general government facilities, fire and police stations and apparatus, parks and trails, water, sewer, and stormwater infrastructure. This information is combined with level-of-service data to determine future needs necessitated by development.

Figure 4: An Example of TischlerBise's Marginal Costing Methodology

BASE YEAR BUDGET AND FACTOR PROJECTION METHODOLOGY INPUTS

CUSTOMER CONTACT CENTER Expenditure Name	Base Year Budget Amount	Project Using Which Demand Base?	Demand Unit Multiplier	Projection Methodology	Annual Change (+/-)	LOS Std $ per Demand Unit
Salaries and Wages	$356,041	POP AND JOBS	0.50	CONSTANT	0%	$0.53
Employee Benefits	$187,620	POP AND JOBS	1.00	CONSTANT	0%	$0.56
Purchased Services & Materials	$3,734	POP AND JOBS	1.00	CONSTANT	0%	$0.01
Internal Service Charges	$197,958	POP AND JOBS	1.00	CONSTANT	0%	$0.59
Other Expenditures	$6,840	FIXED	1.00	CONSTANT	0%	$0.00
Direct Entry Cost Type 1	$0	DIRECT ENTRY	1.00	CONSTANT	0%	$0.00
Direct Entry Cost Type 2	$0	DIRECT ENTRY	1.00	CONSTANT	0%	$0.00
TOTAL	$752,193					

BASE YEAR BUDGET AND FACTOR PROJECTION METHODOLOGY INPUTS

FINANCE Expenditure Name	Base Year Budget Amount	Project Using Which Demand Base?	Demand Unit Multiplier	Projection Methodology	Annual Change (+/-)	LOS Std $ per Demand Unit
Salaries and Wages	$1,338,422	POP AND JOBS	0.50	CONSTANT	0%	$2.00
Employee Benefits	$560,665	POP AND JOBS	1.00	CONSTANT	0%	$1.68
Purchased Services	$141,933	POP AND JOBS	1.00	CONSTANT	0%	$0.42
Internal Service Charges	$476,036	POP AND JOBS	1.00	CONSTANT	0%	$1.42
Materials	$31,636	FIXED	1.00	CONSTANT	0%	$0.00
Capital Outlay	$5,000	FIXED	1.00	CONSTANT	0%	$0.00
Other Expenditures	$46,470	POP AND JOBS	1.00	CONSTANT	0%	$0.14
Direct Entry Cost Type 1	$0	DIRECT ENTRY	1.00	CONSTANT	0%	$0.00
Direct Entry Cost Type 2	$0	DIRECT ENTRY	1.00	CONSTANT	0%	$0.00
TOTAL	$2,600,162					

Use of Inflation

MuniCap choose to inflate all the results of its fiscal impact analysis using an annual inflation rate of three percent. Over the analysis time horizon of 41 years, use of this rate inflates figures by 326 percent. In general, TischlerBise avoids inflating fiscal results because inflation is complicated and unpredictable. This is particularly the case given that some costs, such as salaries, increase at different rates than other operating and capital costs, such as contractual and building construction costs. These costs, in turn, almost always increase in relation to the appreciation of real estate, thus affecting the revenue side of the equation. Using constant dollars avoids these issues. Additionally, it allows for more useful comparisons of impacts over the period under consideration.

Understated Costs – Selected Examples

As stated previously, MuniCap lists some expenses as "not impacted." These costs are assumed to be fixed (e.g., they will not increase with additional development). Since the fiscal impact report lacks any background information relative to how assumptions were derived, these assumptions are probably based on professional judgement. (*If MuniCap has determined, through case study interviewing, that these factors are fixed, this portion of the analysis should remain the same. However, an explanation should be included as to why additional development will not impact these services).* Although we agree with the assumption that certain costs are fixed and not impacted by additional development, our experience has generally been that this assertion should not exclude entire departments or divisions from the fiscal impact analysis. Based on our in-depth knowledge of government services nationally and in Maryland in particular, a number of services that are assumed to be "not impacted" could be impacted by additional development. Below are some examples of these costs.

Figure 5: Examples of "Not Impacted" Costs

- General Services - Design and construction/major projects division
- Recreation and Parks - Aquatics
- Legal: Transactions
- Sheriff - Service of Protective and Peace Orders
- Transportation
    - Snow and Ice Control
    - Bridge and Culvert Management
    - Street Cut Management
    - Traffic Safety
    - Special Events

Transportation

Transportation Department expenditures total approximately $96.1 million in the current fiscal year. MuniCap's analysis assumes that approximately 16 percent of these expenditures are not impacted by the additional development occurring at Port Covington. As stated in the Development and TIF Application Overview section, the Port Covington development project will create 42 new city blocks. It is not explicit within the TIF application, but TischlerBise assumes the streets created will be turned over to the City for maintenance, which will almost certainly have an impact on divisions within the Transportation Department such as Snow and Ice Control and Traffic Safety, for instance.

Health

Health Department expenditures total approximately $22.3 million in the current fiscal year. The MuniCap analysis assumes that almost 50 percent of these expenditures are not impacted by the additional development occurring as a result of Port Covington.

Sheriff

The Sheriff's Office expenditures total approximately $20.4 million in the current fiscal year. The MuniCap analysis assumes that four of the five divisions, totaling 47% of the budget, will not be impacted by the additional development occurring at Port Covington. These divisions are Courthouse Security, Service of

Protective and Peace Orders, District Court Sheriff Services, and Child Support Enforcement. While there may be fixed costs within the Sheriff's Office, in our opinion it is disingenuous to assume that if an additional 12,073 residents are generated by the Port Covington development it will place no demands on the service of protective orders or enforcement of child support.

Baltimore City Public Schools

Baltimore City Public School expenditures are projected to increase with additional student enrollment, based on a projection of new students using student generation rates by housing unit type.

MuniCap used student generation rates by housing type (apartments and condominiums) from Baltimore County Schools District 2 because the Baltimore City Schools could not provide rates specific to the City. Presumably this was an attempt to obtain rates from a location nearby with a large amount of multifamily units. However, there is little discussion of the likelihood that these stand-in rates approximate the rates that will be seen in the proposed development. Pupil generation depends on size of unit along with a whole host of demographic and socioeconomic factors. Therefore, when rates are not from the locality in which a development is proposed, a discussion of the characteristics of the data source should be included in the analysis, particularly given the large share of municipal budgets devoted to education.

Moreover, there are a number of other methodologies for calculating student generation rates if geocoded student address data is not available. For instance, using a comparison methodology for specific developments that are similar in housing stock quality and size could provide more accurate generation rates. Additionally, TischlerBise has utilized a methodology for calculating generation rates that utilizes U.S. Census Bureau Public Use MicroData Sample (PUMS) data combined with school district enrollment data. This information can be used to derive rates for a variety of housing unit types and sizes. This methodology is shown in Figure 5.

Figure 6: TischlerBise's PUMS Student Generation Rate Methodology

Public School Students by Housing Unit Type for PUMA Regions 8101, 8102, & 8103

	Housing Unit Type				Total
	Single-Family	TH/Duplex	Manf. Home	MF/Other	
Elementary (K-5)	11,793	4,426	1,298	4,088	21,605
Middle (6-8)	7,668	1,136	306	1,227	10,337
High (9-12)	8,157	1,423	501	1,439	11,520
				TOTAL	43,462

	Housing Unit Type				Total
	Single-Family	TH/Duplex	Manf. Home	MF/Other	
Housing Units	89,593	19,622	28,320	37,579	175,114

Source: Cross tabulation by TischlerBise using U. S. Census Bureau, 2013 ACS Public Use Microdata Sample for Florida PUMAs 8101, 8102, & 8103.

Estimated Public School Students by Housing Unit Type

	Housing Unit Type				Total	Manatee County Enroll. 2012-13
	Single-Family	TH/Duplex	Manf. Home	MF/Other		
Elementary (K-5)	11,793	4,426	1,298	4,088	21,605	20,079
Middle (6-8)	7,668	1,136	306	1,227	10,337	8,392
High (9-12)	8,157	1,423	501	1,439	11,520	10,381
				TOTAL	43,462	38,852

	Housing Unit Type				Total	2013 Housing Units
	Single-Family	TH/Duplex	Manf. Home	MF/Other		
Housing Units	89,593	19,622	28,320	37,579	175,114	175,114

Source: TischlerBise estimates for Manatee County using U.S. Census Bureau, 2013 ACS Public Use Microdata Sample for Florida PUMAs 8101, 8102, & 8103 (calibrated to MCPS enrollment for 2012-2013 and 2013 ACS housing unit estimate.)

Unadjusted Student Generation Rates

Public School Students per Dwelling

	Housing Unit Type				Weighted Average
	Single-Family	TH/Duplex	Manf. Home	MF/Other	
Elementary (K-5)	0.132	0.226	0.046	0.109	0.123
Middle (6-8)	0.086	0.058	0.011	0.033	0.059
High (9-12)	0.091	0.073	0.018	0.038	0.066
TOTAL	0.308	0.356	0.074	0.180	0.248

Source: Cross tabulation by TischlerBise using U. S. Census Bureau, 2013 ACS Public Use Microdata Sample for Florida PUMAs 8101, 8102, & 8103.

Manatee County Public School Students Per Housing Unit

Public School Students per Dwelling

	Housing Unit Type				Weighted Average
	Single-Family	TH/Duplex	Manf. Home	MF/Other	
Elementary (K-5)	0.122	0.210	0.043	0.101	0.115
Middle (6-8)	0.069	0.047	0.009	0.027	0.048
High (9-12)	0.082	0.065	0.016	0.035	0.059
TOTAL	0.273	0.322	0.068	0.163	0.222

Source: TischlerBise estimates for Manatee County using U.S. Census Bureau, 2013 ACS Public Use Microdata Sample for Florida PUMAs 8101, 8102, & 8103
(Calibrated to MCPS enrollment for 2012-2013 and 2013 ACS housing unit estimate.)

No Analysis of Capital Impacts

MuniCap's fiscal impact analysis does not include an evaluation of the impact of the Port Covington development on City of Baltimore capital facilities. The TIF application notes that numerous capital costs for interchange improvements, an intra-development circulator train, and a light rail extension, for instance, are assumed to be covered either by the Tax Increment Finance district or various state or federal grants/contributions. Also, the developer proposed to include some land for parks and open space as part of the project. It appears the analysis assumes this is the limit of any impacts on City infrastructure as a result of Port Covington.

Parks and Recreation Facilities

It is not uncommon for a development project to include open space or park amenities as part of the development. Generally, these improvements are intended to serve the residents of that development, and are not intended to satisfy city-wide parks and recreation needs such as community park land, athletic complexes, and recreation and community centers. The MuniCap report contains no discussion of current City parks and recreation facilities or of current levels of service. In other words, there is no discussion or analysis of the impact of Port Covington's 12,073 residents on the City's parks and recreation infrastructure.

General Government Facilities

Similar to parks and recreation, the MuniCap report does not discuss current City levels of service for general government facilities or whether the increase of over 27,000 in service population will have an impact on the provision of general government space.

Police Facilities

The MuniCap report contains no discussion of current City level of service for police facilities and whether the increase of over 27,000 in service population will have an impact on the provision of police space. It has been our experience through discussions with police departments around the country that developments similar in size and scale to Port Covington often require a substation within the actual development. It is often the case that this space is provided free-of-charge to the city. In addition, we are often told that the catalytic effect of a Port Covington-size project spurs redevelopment nearby, necessitating the need for an actual stand-alone substation, which is usually a City expense.

Fire Facilities

The MuniCap report contains no discussion of the current City level of service for fire stations and whether the increase of over 27,000 in service population will have an impact on the provision of fire station space and apparatus. Items that need to be addressed include which station(s) would serve Port Covington, current call volume versus capacity, and based on current call volumes can the station(s) handle the addition of Port Covington without additional space and/or apparatus. Additionally, the fire station(s) serving the Port Covington area may currently not have adequate equipment to serve development with Port Covington's scale. For example, a new ladder truck may be required due to the height of the new buildings. Finally, similar to the police discussion, if the development of Port Covington were to have a catalytic impact and spur redevelopment nearby, how would that impact fire station space and apparatus needs?

Roads

We know from the Port Covington TIF Application that there are numerous transportation-related improvements planned that will be funded through various state and federal funding sources, and possibly tax increment financing. However, there is little discussion or analysis on the impact of the Port Covington development on the City's existing transportation infrastructure. For example, a developer is usually required to mitigate the impact of his development in two ways. First, the onsite impacts are addressed, which usually consists of turn lanes and/or intersection improvements. Second, there is an impact of the development on system-wide transportation capacity. These are infrastructure needs that cities and counties typically address through the collection of impact fees. In a redevelopment situation such as Port Covington, it is often the case that the existing city transportation infrastructure can handle the increased traffic volumes. However, there is no explanation provided if this is the case.

Schools

We know from the MuniCap fiscal impact analysis that they are projecting 884 public school students to be generated by Port Covington. However, MuniCap includes no analysis or evaluation of current Baltimore City Schools infrastructure and whether there is capacity in existing schools to handle this increase in students, or if existing bus routes are adequate.

ANALYSIS OF EMPLOYMENT PROJECTIONS

Overview

MuniCap chose to project retail and hotel jobs resulting from the proposed development using IMPLAN software (published by IMPLAN Group, LLC). IMPLAN is an industry-accepted product that is most useful for calculating indirect impacts of development through the use of multipliers that can be used to calculate indirect jobs and dollar outputs created by jobs directly related to a specific development (i.e., "spin-off" effects). However, it can also be used to calculate direct jobs expected at a development. IMPLAN utilizes U.S. Bureau of Economic Analysis National Income and Product Accounts data to calculate labor income and numbers of jobs by industry and indexes these numbers against U.S. Census Bureau data for specific localities.

Total direct employment is typically calculated by determining the average square feet per employee for each individual land use. For instance, MuniCap reports that IMPLAN projects retail development at Port Covington would generate 3.72 full-time employees (FTE) per 1,000 square feet, or 269 square feet per employee. Total buildout retail square footage (1,304,040) is then divided by the latter number (269), yielding a total of 5,920 retail jobs. In the same fashion, IMPLAN projects 0.43 FTEs per hotel room for a total of 95 FTE (resulting from a 200 room hotel).

To derive a manufacturing jobs-to-square footage ratio, MuniCap used another national source, *Logistics Trends and Specific Industries that Will Drive Warehouse and Distribution Growth and Demand for Space*, published in March 2010 by the NAIOP Research Foundation. Until 2009, NAIOP was the National Association for Industrial and Office Parks, but the organization now focuses on commercial real estate development more broadly. Using a rate of 0.46 FTEs per 1,000 square feet of manufacturing space, MuniCap projects a total of 139 manufacturing FTEs from 303,016 square feet at Port Covington.

MuniCap utilized a localized data source for information on the relationship of jobs and office space: the *BOMA Experience Exchange Report* (2014) for the Baltimore, MD market. This study reported an average square feet per employee of 226, yielding a total of 18,844 employees (from a total of 4,251,500 square feet of office space). This figure is multiplied by an FTE equivalent of 0.9298 (from IMPLAN), resulting in a total employment of 17,521 FTEs.

Finally, MuniCap uses 75% of the assessed value of residential and non-residential costs of construction for the Schedule I projects to calculate temporary construction jobs. Jobs are derived using IMPLAN multipliers and an FTE equivalent multiplier. This process results in a total temporary construction job count of 14,603 FTEs over a one-year basis.

Analysis

In general, TischlerBise finds these projection methodologies to be valid. To calculate job increases, TischlerBise often uses square feet per employee data from the Institute of Transportation Engineers' *Trip Generation* (2012) manual. The ITE manual would project fewer retail workers, since it estimates 500 square feet per employee in the typical shopping center (as opposed to 269). The manual would also estimate lower numbers of office jobs for the same reason. Interestingly, ITE estimates the average square feet per manufacturing employee at 558, and light industrial at 433. These figures are dwarfed by MuniCap's inputs from NAIOP, which are close to 2,000 square feet per employee. Therefore, the MuniCap estimates may be conservative on manufacturing jobs and/or generous on office and retail jobs. The projection of temporary construction jobs is reasonable as well, though the inclusion of a narrative basis for using 75% of construction costs as the employment projection base would be informative for further analysis.

It is important to note that with the exception of the temporary construction jobs, the direct job figures are not job *creation* figures: they are more akin to job *hosting* figures, in that they describe the jobs that will be *located* at the development. The development is more intricately connected to job creation as it pertains to the indirect effects, since by locating in the City the development is bringing in wages that then build demand for other services. Even this is a murky relationship, however, especially if you have businesses moving from an existing location in the City to the new development. That is, to the extent creating a desirable new venue in Port Covington cannibalizes economic activity now located in the Central Business District or other parts of Baltimore, some "new" jobs will actually be existing jobs with new addresses. From a citywide fiscal perspective, this is essentially a net neutral move.

Moreover, this jobs analysis should not be framed as an analysis of decreasing City unemployment. Though this may occur, it is important to note than many jobs may be filled by in-migrants or commuters instead of existing residents. People migrate to areas with strong economic growth, particularly in the United States, where there is a notably high degree of labor mobility. This is particularly true of high-skill jobs related to the development of manufacturing or R&D space, back-office support, finance and insurance, or corporate headquarters functions like those at Under Armour. Similarly, claims that jobs require less skill or training or that serve the local population are expected to increase income or employment should also be taken with a grain of salt. A local population can only support so much retail, housing, and other general every-day service establishments, and expansion through one development may displace sales for competitors. Though in the case of Port Covington, a large residential increase will temper these effects, if the development becomes a regional entertainment or retail hub, this effect may be present.

Inclusion of Multiplier Effects in the Job Projections

As noted above, a fiscal impact evaluation analyzes new tax revenue generation and operating and capital costs to a jurisdiction associated with the provision of public services and facilities to serve a new development—residential, commercial, industrial, or other. A fiscal impact analysis is different than an economic impact analysis. Whereas a fiscal impact analysis projects the cash flow to the *public sector,* an economic impact analysis projects the cash flow to the *private sector* (measured in income, jobs, output, indirect impacts, etc.).

MuniCap chose to include results from the use of IMPLAN multipliers to also calculate the *indirect* job creation and dollar outputs for its fiscal impact analysis. When a firm locates to a new location, its "upstream" purchases of goods and services and the "downstream" purchases of its employees can have significant "spin-off" effects on the local economy if a large share of these expenditures are made on locally-sourced goods and services. This "multiplier" effect describes the portion of the initial direct increase in company expenditures on goods and services and employee wages that is spent locally. A similar multiplier effect can occur from industry "clustering" as well (when a large expansion or relocation attracts other related firms or suppliers to an area).

However, even though the multiplier effect has the potential to increase income tax revenues for the City, this portion of MuniCap's analysis is more traditionally conceived of as *economic* impact analysis, rather than *fiscal* impact analysis. The reason for this distinction is that multiplier effects can be extraordinarily complex. For instance, infusions of capital can continue to ripple through the economy multiple times as it changes hands from business to business and person to person. Moreover, unless a development is entirely leased up prior to the completion of a fiscal impact analysis (which is highly unlikely), it is difficult to estimate how new development and businesses will compete with existing development. Existing jobs or businesses may be displaced by the new development, dampening positive fiscal impacts. Although MuniCap does not appear to have included these indirect impacts in the fiscal impact analysis, it could be misleading to include them in the job projections as anticipated revenues when discussing the fiscal impact of Port Covington.

ANALYSIS OF DEVELOPMENT PROFIT

TischlerBise also examined the development pro forma provided in the TIF application. This is very difficult to do without access to the Excel version of the pro forma, since one important aspect of pro forma due diligence is stress testing via various risk and development scenarios. Nevertheless, in this section TischlerBise provides some high-level analysis of the profit projections.

The first aspect of the pro forma considered was the Internal Rate of Return (IRR). IRR is a metric used to measure the profitability of potential investments by evaluating the return on an initial investment (projected cash flows) over time. Technically, the IRR is the discount rate (interest rate) at which the net present value of cash flows equals zero, or the cost of the initial investment.

The pro forma projects an unleveraged IRR of -1.90% without the TIF infrastructure bond revenues and 9.24% with the TIF revenues. The application notes that the latter figure is in line with IRRs reported in the *Fourth Quarter 2015 PwC Real Estate Investor Survey*. This survey noted that development IRRs ranged from 10% to 20% nationally, with an average of 15.50% during the fourth quarter. However, given the fact that real estate markets vary dramatically nationally, a more informative pro forma would situate this IRR within the Washington, DC – Baltimore, MD metropolitan region, determining expected net operating incomes and capitalization rates from case study projects.

Acceptable IRR is subjective and dependent on the inclinations of the investor and the context of the development. For instance, high net-worth individuals simply looking to make the investment with the highest returns may view a land development project as one potential investment which must be measured against other investments available in the financial markets or venture capital space. These investors may simply choose the investment with the highest IRR given the amount of capital available for investing. Land developers, on the other hand, tend to view IRRs within the specific real estate space, comparing IRRs for different types of developments or building operations.

Moreover, IRRs must be evaluated within the context of the development as a whole, including the amount of capital invested initially and risk to all equity stakes. A project with a very high IRR may not be desirable to an investor if he or she must stake a large share of initial capital. Likewise, a project subject to a large number of exogenous risks (e.g., a complicated entitlement project, uncertain market conditions, or a difficult development site or location) will probably not be as appealing as a less risky project with the same IRR. Therefore, riskier projects may require higher IRRs. This is particularly true when developing in an unproven area or when a large amount of investment is required, such as Port Covington. In those cases, desired IRRs may reach into the 20 percent range.

TischlerBise has several other concerns about the pro forma. For one, it appears calculations were only made using Sagamore's current land acquisition investment of $114,731,000. If the developer must also acquire some portion of the additional approximately 100 acres in the development area, what will it cost and why is it not included in the total development costs? Related to this point, if the TIF is approved, acquisition costs can be expected to increase as current owners anticipate critical mass is building for the development and so demand higher prices.

Likewise, one of the most important project revenues is land sales, which hinges on assumptions about demand, market comparables, and vertical development returns (following initial land development). However, although square footage estimates for market comparables are included, they lack detailed explanation or sourcing. Similarly, more detailed information on the vertical development return expectations is excluded from the report. The inclusion of a detailed market analysis could ameliorate these concerns.

In general, the fact that no market study is included with the TIF application is odd. Typically, a granting authority would want to see the evidence of demand for new development when such a large amount of public revenues is requested to fund infrastructure for it, not to mention the fact that a detailed and vetted market study will be required by any prospective lending institution. It is not enough to simply say that the residential units will create a market for the nonresidential space, or vice versa, or that the development is so big that it will create its own markets. Too often this assertion has proved untrue. A market analysis is also critical to evaluating sales prices, since sales prices will vary dramatically with various prevailing absorption and vacancy rates.