

September 30, 2016

VIA ELECTRONIC MAIL

The Honorable Calvin B. Ball
Chair, Howard County Council– District 2

The Honorable Jonathan S. Weinstein
Vice-Chair, County Council– District 1

The Honorable Jennifer R. Terrasa
Howard County Council – District 3

The Honorable Mary Kay Sigaty
Howard County Council – District 4

The Honorable Gregory Fox
Howard County Council – District 5

George Howard Building
First Floor
3430 Courthouse Drive
Ellicott City, Maryland 21043

Re: PROPOSED BILL NO. 56-2016/ PROPOSED RESOLUTION NO.105-2016
CRESCENT SPECIAL TAXING DISTRICT

Dear Chairman Ball and Members of the Howard County Council:

We are writing in connection with the proposed legislation to create a tax increment finance district in the area of downtown Columbia commonly referred to as the Merriweather District (the "TIF Legislation"). The TIF Legislation will authorize the County to raise approximately \$90 million in proceeds (the "TIF Proceeds"). The Howard Hughes Corporation will use the TIF Proceeds to finance portions of the first phase of a proposed mixed-use project to be built within the Merriweather District. We understand that Howard Hughes owns all of the land and improvements within the Merriweather District.

Howard Hughes will use approximately \$66 million of the initial \$90 million in TIF Proceeds to pay for hard cost improvements within the Merriweather District. Of the \$66 million in TIF Proceeds, Howard Hughes will use approximately \$15 million for the first phase of the infrastructure improvements to the roads and utilities within the Merriweather District (the

"Infrastructure Work"). Howard Hughes will use the remaining \$51 million to build a free standing 2,545 space parking structure, designated as Garage c3.3 in the TIF Legislation that will be located within an office park being developed by Howard Hughes (the Parking Garage) but owned by Howard County for public use. Thus, more than seventy-five percent (75%) of the available TIF Proceeds will be used to fund the construction of the Parking Garage. We do not object to the concept of TIF proceeds being used for the Infrastructure Work if justifiable by a "but for" analysis. However, for the reasons noted herein, we do object to 75% of the TIF Proceeds being used to fund the construction of the Parking Garage. It is also our understanding that future phases of Howard Hughes' Crescent District project will utilize additional proceeds from the TIF to build other parking garages that also support the parking for new office construction.

By allowing Howard Hughes to use the TIF Proceeds to build the Parking Garage and allowing the public garage to fulfill Howard Hughes' future office development parking requirements, the County confers on Howard Hughes a significant competitive advantage over all of the other local developers/office building owners and local businesses operating in the County. Howard Hughes' use of TIF Proceeds to build the Parking Garage alleviates it from the financial burden of constructing parking facilities to support its office development. In addition, the County will assume the obligation for operating and maintaining the garage for 50 years which obligation includes paying for the utilities, day-to-day maintenance and capital improvements (including rebuilding the garage in the event of a casualty). The County's cost of operating and maintaining the Parking Garage will not be paid from the TIF Proceeds but by the County's taxpayers. As a result, the County provides Howard Hughes a significant cost-basis advantage relative to every other office and retail development in the County, thus, creating unprecedented cost savings for Howard Hughes. By having this cost-advantage, Howard Hughes can lease its office and retail projects at rental rates significantly below established market rents for similar Class A and Class B projects in the County. In addition, by providing free parking and assuming the operational costs for the Parking Garage the County will drive up the value of Howard Hughes' office buildings because those buildings will come with free parking and none of the costs a typical owner would incur with respect to operational and maintenance requirements. *As a result, the County provides a significant economic benefit to Howard Hughes that we do not believe the County intends to confer on Howard Hughes and is not conferred on any other local developer or local business.*

Howard Hughes' ability to charge below market rents will also create distortions in the local market that could adversely impact the County. With a disproportionate cost and rent advantage, tenants will likely relocate from established commercial office and retail projects at a faster rate than would be in keeping with a normal competitive market. Unless there is a surge in business and leasing activity in the County, local developers and businesses will have difficulty in absorbing the vacancies rapidly created by this market distortion. As a result, while real estate taxes in the Merriweather District may rise, any such tax gains will be offset by the losses experienced by local developers from the accelerated vacancies in their projects in the County's other submarkets.

One may argue that it is necessary to confer such a benefit on Howard Hughes in order to facilitate development in downtown Columbia. But Howard Hughes already demonstrated it can build an office building with structured parking at a cost basis that is competitive in the local market without resorting to a TIF. Howard Hughes recently announced it is close to completing

One Merriweather (a class A office building located in the Merriweather District) plus a 1,127 space parking garage. Howard Hughes already pre-leased forty-nine percent (49%) of the building to Med-Star. All of this was accomplished without the benefit of a TIF. It appears incongruous that Howard Hughes, based in Dallas, Texas, will receive this significant economic advantage while other local developers in the County must compete without such an advantage and absorb the cost of parking and allocate that cost to their tenants, many of whom are small and local businesses. Developers have to build the cost of parking (surface or structured) into their rental rates and recoup the maintenance and capital improvements costs either through CAM charges or increases to rent. The County alleviates Howard Hughes of that obligation by using the TIF to pay for the Parking Garage and agreeing to operate and maintain it at taxpayers' expense.

Lastly, based on the preliminary budgets included in the TIF Legislation, it appears that the funding level for the Parking Garage exceeds by more than fifty percent (50%) the typical cost for building such above ground parking structures in the County. Howard Hughes proposes spending in excess of \$51.1 million on the Parking Garage, which amounts to approximately \$20,100 per space. Generally, the cost of a parking garage in Howard County is roughly \$12,000 per space. And based on Howard Hughes' most recent quarterly report, its cost to construct the 1,127 space parking garage at One Merriweather was \$15 million, which is about \$13,300 per space. Based on the information from Municap included in the TIF Legislation, it would appear that another \$60 million in future TIF funds is proposed for other parking garages which amounts to approximately \$20,000 per space. The budget for the Parking Garage appears to be far in excess of the industry norm for the County and would create a significant windfall to Howard Hughes and with those additional funds Howard Hughes can subsidize its other development expenses for its Merriweather District development such as site prep and grading costs.

As stated above, we do not oppose the concept of TIF Proceeds to be used for the Infrastructure Work if justifiable by a “but for” analysis, all of which benefits Howard Hughes and the general public in the area. We take exception to any portion of the TIF Legislation providing for a Parking Garage as it confers a significant private benefit to one real estate developer and does not provide an equal or greater benefit to the general public or local developers and businesses. We respectfully object to the timing of the vote as it is being rushed through and will create unintended consequences for other developers and building owners in the County. As such, we request that the vote on the TIF Legislation, scheduled for October 5, 2016, be postponed for at least 90 days until all of the economic ramifications and consequences of the TIF Legislation can be fully vetted by the business community.

We respectfully request the opportunity to meet with you to discuss this in greater detail.

Sincerely,

(This letter is counter-signed by the following six companies listed below.)

Corporate Office Properties Trust
Stephen E. Budorick,
President and CEO

St. John Properties
Edward St. John,
Chairman and CEO

Knott Realty Group
James F. Knott, Jr.
President

Merritt Properties
Robb Merritt,
President

Greenebaum Enterprises
Michael Greenebaum,
President

Abrams Development Group
James “Mickey” Abrams,
President

Attachments:

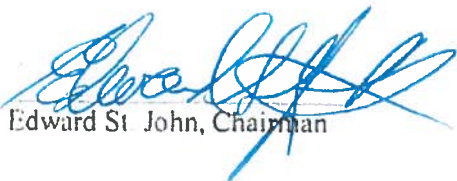
Crescent Special Taxing District – Financial Considerations
Summary of Stephen Budorick Testimony – County Council 9/22/16 Hearing

Corporate Office Properties Trust



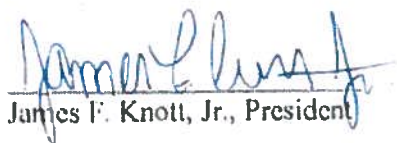
Stephen E. Budorick
President and Chief Executive Officer

ST. JOHN PROPERTIES, INC.



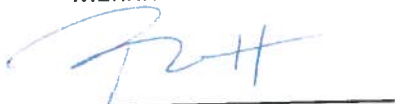
Edward St. John, Chairman

KNOTT REALTY GROUP



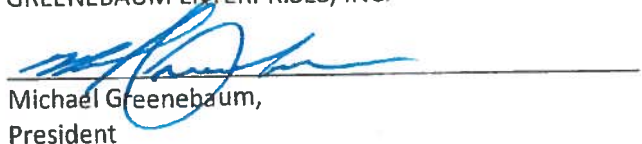
James F. Knott, Jr., President

MERRITT PROPERTIES



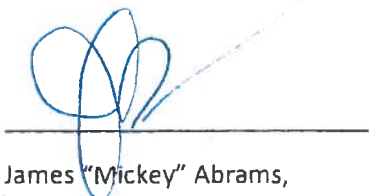
Robb Merritt
President

GREENEBAUM ENTERPRISES, INC.



Michael Greenebaum,
President

ABRAMS DEVELOPMENT GROUP



James "Mickey" Abrams,
President

Downtown Columbia TIF

1. Crescent Off-Site Infrastructure Improvement Funding: **\$15M (\$7.70/sf to first phase)**
 - We support the concept of TIF funding for justifiable public infrastructure improvements that pass a “but for” analysis.
2. TIF Parking Structure Funding
 - We oppose all public funding for garages and related site work improvements
 - Provides Howard Hughes with a **\$6/sf Rent Advantage**
 - Requested funding is **50% Higher** than actual costs (**\$20k v. \$13k/space--** allows for additional on-site, private site work improvements)

Background

Crescent Proposed Development Funded by Howard County TIF

Office	2,304,300sf
Residential	2,099,246sf
Retail & Hotel	398,810sf
Crescent Neighborhood Total:	4,802,356sf

Crescent TIF Qualified Improvements

Phases 1A & 1B Only (1C, 2, & 3 are Future Phase)	
Off-Site Infrastructure	\$15M
Structured Parking Garage Funding	<u>\$51M</u>
Total Hard Improvement Costs:	\$66M
TIF Phase 1 Bond Authorization:	\$90M

TIFs -- Self Financing Tool for:

- Redevelopment of Urban Renewal Areas (brownfield land and/or buildings that wouldn't otherwise be developed)
- Encouraging Economic Development
- Rebuilding Public Infrastructure

TIF Competitive Advantages for Howard Hughes

- Crescent Off-Site Infrastructure Improvement Funding: \$15M (\$7.70/sf)
- Office/Retail Structured Parking :

Crescent Office/Retail Garage	\$51M, or \$20,040/space, or \$76/sf , 27% Budget Advantage (on a projected budget of \$280/sf)
Lakefront Garage	\$11.8M, or \$19,700/space
Symphony Overlook Garage	\$25.1M, or \$12,549/space

**Downtown Columbia Tax Increment Financing
Infrastructure Program Request from Howard Hughes Corporation**

Item	Requested	Qualified ⁽¹⁾
Phase I – Special Taxing District 1A:		
Roads segment 1 - Merriweather Drive	\$4,228,334	\$4,228,334
Roads segment 1 - Sky Lane	\$899,599	0
Roads segment 1 - Hickory Ridge	\$571,995	\$571,995
Roads segment 1 - SW piping, treatment & storage	\$1,647,907	\$1,647,907
Roads segment 1 - water & sewer	\$3,669,339	\$3,669,339
At-grade intersection improvements (multiple intersections)		
Governor Warfield/Twin Rivers	\$359,355	\$359,355
Little Patuxent/Swift Stream	\$267,319	\$267,319
Broken Land/Twin Rivers	\$199,256	\$199,256
Little Patuxent/Merriweather Drive	\$499,905	\$499,905
Broken Land/Hickory Ridge signalization	\$470,925	\$470,925
Maintenance of traffic /night work premium	\$123,165	\$123,165
Physical improvement allowance	\$978,075	\$978,075
Dry utilities	\$1,181,250	0
Multi-Use pathway (Crescent)	\$1,426,359	0
Area 1 public space	\$519,677	0
Total Improvements: Phase I – Special Taxing District 1	\$17,042,460	\$13,015,574
Less Qualified Amount Exceeding Affordability Threshold		(\$3,153,367)
Qualified Improvements: Phase I STD 1A to be Financed by Bonds		\$9,862,207
Phase I – Special Taxing District 1B:		
Roads segment 2 – Completion of Merriweather Drive	\$3,937,008	\$3,937,008
Roads segment 2 – SW piping, treatment & storage	\$830,277	\$830,277
Roads segment 2 – water & sewer	\$1,836,687	\$1,836,687
Roads segment 3 – Area 3 (public roads)	\$6,479,135	0

Item	Requested	Qualified ⁽¹⁾
Roads segment 3- Stormwater roadway	\$2,412,134	\$2,412,134
Area 3 park	\$2,726,390	0
Public parking (area 3, garage c3.3) 2,545 spaces	\$51,168,911	\$51,168,911
Public parking (area 3; garages C3.2 and C3.4) 418 total spaces	\$8,404,167	0
Total Improvements: Phase I – Special Taxing District 1B	\$77,794,710	\$60,185,018
Less Qualified Amount Exceeding Affordability Threshold		(\$4,016,107)
Qualified Improvements: Phase I STD 1B to be Financed by Bonds		\$56,168,911
Total Improvements: Phase I – STDs 1A& 1B	\$94,837,170	\$73,200,592
Less Qualified Amount Exceeding Affordability Threshold		(\$7,169,474)
Qualified Improvements: Phase I STDs 1A&1B to be Financed by Bonds⁽²⁾		\$66,031,118
Phase II – Special Taxing District 1C:		
Crescent Phase II – [REDACTED]	\$5,787,994	[REDACTED]
Crescent Phase II – [REDACTED]	\$3,046,313	[REDACTED]
Road segment 4 (NS Connector/jug handle)	\$15,939,000	\$15,939,000
Total Improvements: Phase II – Special Taxing District 1C	\$24,773,307	\$24,773,307
Less Qualified Amount Exceeding Affordability Threshold		0
Qualified Improvements: Phase II STD 1C to be Financed by Bonds		\$24,773,307
Phase III – Special Taxing District 2		
[REDACTED]	\$11,780,409	[REDACTED]
Total Qualified Improvements: Phase III – Special Taxing District 2C	\$11,780,409	\$11,780,409
Less Amount Exceeding Affordability Threshold		0
Qualified Improvements: Phase III STD 2 to be Financed by Bonds		\$11,780,409
Phase IV – Special Taxing District 3		
[REDACTED]	\$39,399,360	[REDACTED]
Total Improvements: Phase IV – Special Taxing District 3	\$39,399,360	\$39,399,360
Less Qualified Amount Exceeding Affordability Threshold		(\$14,300,000)

Phase 1 TIF

TIF Future Phases

TIF Future Phases

TIF Future Phases

Item	Requested	Qualified ⁽¹⁾
Qualified Improvements: Phase IV STD 3 to be Financed by Bonds		\$25,099,360
Total Improvements – All Phases and All Special Taxing Districts	\$170,790,246	\$149,153,668
Less Qualified Amount Exceeding Affordability Threshold		(\$21,469,474)
Qualified Improvements All Phases and All STDs to be Financed by Bonds		\$127,684,194

(1) Qualified Improvements are requested improvements that have been determined to be qualified under federal tax-exempt financing laws, consistent with State of Maryland and Howard County Tax Exempt Financing and Special District Taxing laws, and consistent with Howard County Government past development practices and history.

(2) The Qualified Improvements: Phase I STDs 1A&1B to be Financed by Bonds total \$66,031,118
 Additional cost included in the total bonds to be issued for Phase I include:

Issuance costs	\$950,000
Underwriter's discount	\$776,143
Capitalized interest	\$9,754,880
Reserve fund	\$7,936,259
Rounding	\$600
Estimated total bonds required	\$85,449,001

Bond Authorization Request for Phase I **\$90,000,000** Initial TIF Phase Being Voted on

**Downtown Columbia Tax Increment Financing
Development Plan Financing Summary
for Infrastructure Program Request**

	District 1A	District 1B	District 1C	District 2	District 3	Total Proceeds
Sources of Funds						
Bond Proceeds	\$13,822,000	\$71,627,000	\$33,330,000	\$16,121,000	\$32,278,000	\$167,178,000
Interest earned in the Improvement fund	\$0	\$0	\$0	\$0	\$0	\$0
Total Sources of Funds	\$13,822,000	\$71,627,000	\$33,330,000	\$16,121,000	\$32,278,000	\$167,178,000
Uses of Funds						
Public improvements financed	\$9,862,207	\$56,168,911	\$24,773,307	\$11,780,409	\$25,099,360	\$127,684,194
Issuance costs	\$600,000	\$350,000	\$350,000	\$350,000	\$350,000	\$2,000,000
Underwriter's discount	\$276,440	\$499,703	\$499,950	\$241,815	\$559,170	\$2,077,078
Capitalized interest	\$1,719,240	\$8,035,640	\$4,373,300	\$2,136,130	\$4,886,540	\$21,150,850
Reserve fund	\$1,363,564	\$6,572,695	\$3,333,000	\$1,612,100	\$1,382,200	\$14,263,559
Rounding	\$549	\$52	\$443	\$546	\$730	\$2,319
Total uses of funds	\$13,822,000	\$71,627,001	\$33,330,000	\$16,121,000	\$32,278,000	\$167,178,001
Assumptions						
Maturity	30 years	30 years	30 years	30 years	30 years	
Interest only	2 years	2 years	2 years	2 years	2 years	
Amortization	28 years	28 years	28 years	28 years	28 years	
Average Life	22.79	22.89	22.90	22.89	22.90	
Bond Coupon Rate	6.00%	6.00%	6.50%	6.50%	6.50%	
Date bonds to be issued	15-Feb-2017	15-Feb-2017	15-Feb-2019	15-Feb-2018	15-Feb-2019	
Date payments due						
Interest	Feb. 15 and Aug15	Feb. 15 and Aug15	Feb. 15 and Aug15	Feb. 15 and Aug15	Feb. 15 and Aug15	
Principal	February 15	February 15	February 15	February 15	February 15	
Capitalized interest						
Interest funded through	15-Feb-2019	15-Feb-2019	15-Feb-2021	15-Feb-2020	15-Feb-2021	
Months interest funded	24	24	24	24	24	

**Downtown Columbia – Special Public Hearing/Howard County Council
September 22, 2016**

Talking Points

- I am representing Corporate Office Properties Trust (COPT) as CEO and myself as a resident of Howard County.
- COPT is a REIT with a market capitalization of about \$5 billion, located in Columbia, Maryland.
- Our investment in Howard County approximates \$700 million in value.
- We paid \$4.1 million in property taxes last year.
- COPT has reviewed the TIF plan and we generally support the TIF.
- We also support Howard Hughes Corporation's mixed use development plan. Particularly the low income housing requirement.
- It is my impression that the TIF team gave substantial thought to the residential components, but overlooked some potentially adverse impacts of the office development component.
- I also believe that I am representing, without sanction, the interests of every office building owner and developer in Howard County.
- The Phase I TIF Plan provides for a 2,500 space structured parking facility, with funding levels at \$20,000/space.
- It appears, from the public documents, that this public facility will be used to satisfy the parking requirement for 1 million SF of future office development.
- My comments rely on this assumption.
- We believe this aspect of the Plan will create adverse consequences for other owners and developers of office properties located in Howard County.

- Relieving Howard Hughes Corporation from the County obligation to provide 3.4 parking spaces per 1,000 SF provides Hughes approximately a 20% cost advantage to other developers.
- Funding the garage development at \$20,000 per space drives that advantage to 24% or 25%.
- Hughes public documents reveal the garage constructed at One Merriweather cost approximately \$13,300 per space.
- These savings would provide Hughes a \$4-\$6 per square foot rental rate cost advantage at a given fair rate of return.
- In essence, Hughes advantage could be compared to selling brand new cars at the price of 5 year old used cars.
- This cost advantage will has two significant implications:
 1. Every other office development site in the County will be rendered uncompetitive on price and the land investment value diminished in the foreseeable future.
 2. Hughes Development will be cost competitive with almost every existing office property in the County, regardless of age.
- The unintended consequences of the TIF structure are:
 1. Other developers, many located here in Maryland and Howard County, will have diminished opportunity.
 2. The pricing advantage will draw tenants from existing buildings at a faster rate than the free market would otherwise provide.
 3. Barring unprecedented growth in the Columbia office market, the Phase I TIF has the potential to increase vacancy in the Columbia submarket by up to 8%.
 - a. Hurting long term owners financial returns; and
 - b. Diminishing property values, and ultimately real estate tax proceeds.

- In summary, COPT is supportive of the TIF generally.
- We fully support the Phase I infrastructure funding.
- We do NOT support the terms to provide Hughes free parking for their office development . . .
- Unless the terms are amended to level the playing field with competitive developers and owners.
- One possible solution is to require Hughes to pay an annual usage fee equal to the fair rate of return on the cost of the capacity their developments are being provided.
- This structure would have an added benefit of accelerating the repayment of the bonds.
- I urge the Council to delay the vote scheduled for October 5th to allow the office investor community in Howard County to work toward an equitable solution.
- ^{ARE EXPERIENCED} We have never experienced a TIF structure that provides a single developer such a compelling business advantage.