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I. Introduction

An application has been submitted by The Howard Research and Development Corporation (the "Developer") requesting the creation of the Downtown Columbia Development District (the "Development District") and the Crescent Special Taxing District (the "Special Taxing District"). The applicant also requests the County to approve the issuance of tax increment financing ("TIF") bonds. Proceeds from the TIF bonds would be used to finance public improvements necessary for the delivery of the Warfield Neighborhood, Crescent Neighborhood, Lakefront and Lakefront Core Neighborhoods, and Symphony Overlook Neighborhood. The development for which the first series of bonds are being issued is referred to as the Crescent Area I development (the "Project"; the Project area is shown in the attached Exhibit A) and is part of the Crescent Neighborhood.

The Department of Finance ("DOF") is tasked with reviewing such requests and providing recommendations to County Council. To ensure that those recommendations are sound, the DOF has created Tax Increment Finance Guidelines (the "TIF Guidelines") for evaluating applications for assistance. The TIF Guidelines are intended to establish if tax increment financing should be approved based upon: 1) the feasibility of the use of TIF bonds to fund public improvements in connection with private development projects; and 2) whether the private and public improvements within the Development District will meet the County's economic development, land use, and other strategic goals.

The TIF Guidelines are summarized on the following page in Table I and are broken down into two categories for purposes of evaluating criteria. Part I of the guidelines establishes five key criteria for creation of the Development District. Part II of the guidelines also includes five key criteria for evaluating the issuance of bonds.

TABLE I
Tax Increment Financing Guidelines

Part I: Guidelines for Creation of Districts
1. Proposed public improvements must meet requirements of the State Tax Increment Financing Act, as subsequently described herein.
2. a) The desirability of a special taxing district to supplement tax increment revenues must be evaluated; and b) If it is determined that a special taxing district is desirable, the proposed public improvements must also meet requirements of the State Special Taxing District Act, as subsequently described herein.
3. Proposed public improvements must further County goals and policies set forth in *PlanHoward 2030* (the "General Plan") and other adopted plans.
4. Private improvements must be consistent with the General Plan and County Zoning and Subdivision Regulations.
5. Project must provide benefit to County residents living outside the Development District.
Part II: Guidelines for Issuance of TIF Bonds
1. Any County financing provided for the public improvements must be appropriately leveraged by private investment.
2. The Project must demonstrate that, but for County financing of public improvements, would not be a success.
3. The Project must be economically viable throughout the term of the outstanding bonds.
4. Estimates of tax increment and other County revenues from the Project must exceed estimates for newly generated County expenditures as well as debt service.
5. Bonds must not pose risk to the County's credit rating and overall fiscal health.

This memorandum provides an evaluation of the application for the creation of the Districts and the issuance of TIF bonds pursuant to the TIF Guidelines.

EXHIBIT A

Neighborhoods in Downtown Columbia (w/ Project Area)

EXHIBIT E. THE NEIGHBORHOODS

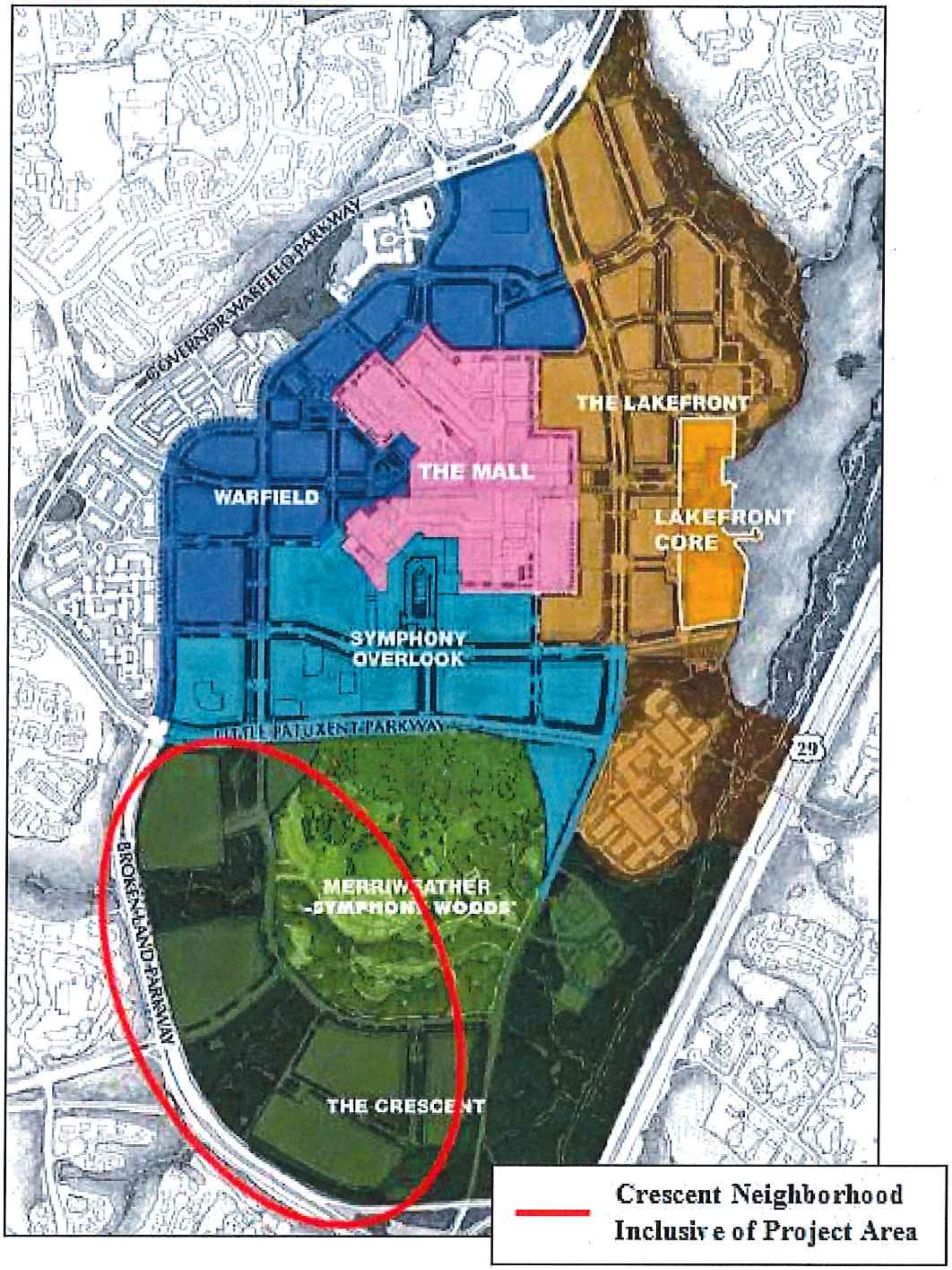


EXHIBIT B
Boundaries of Development District

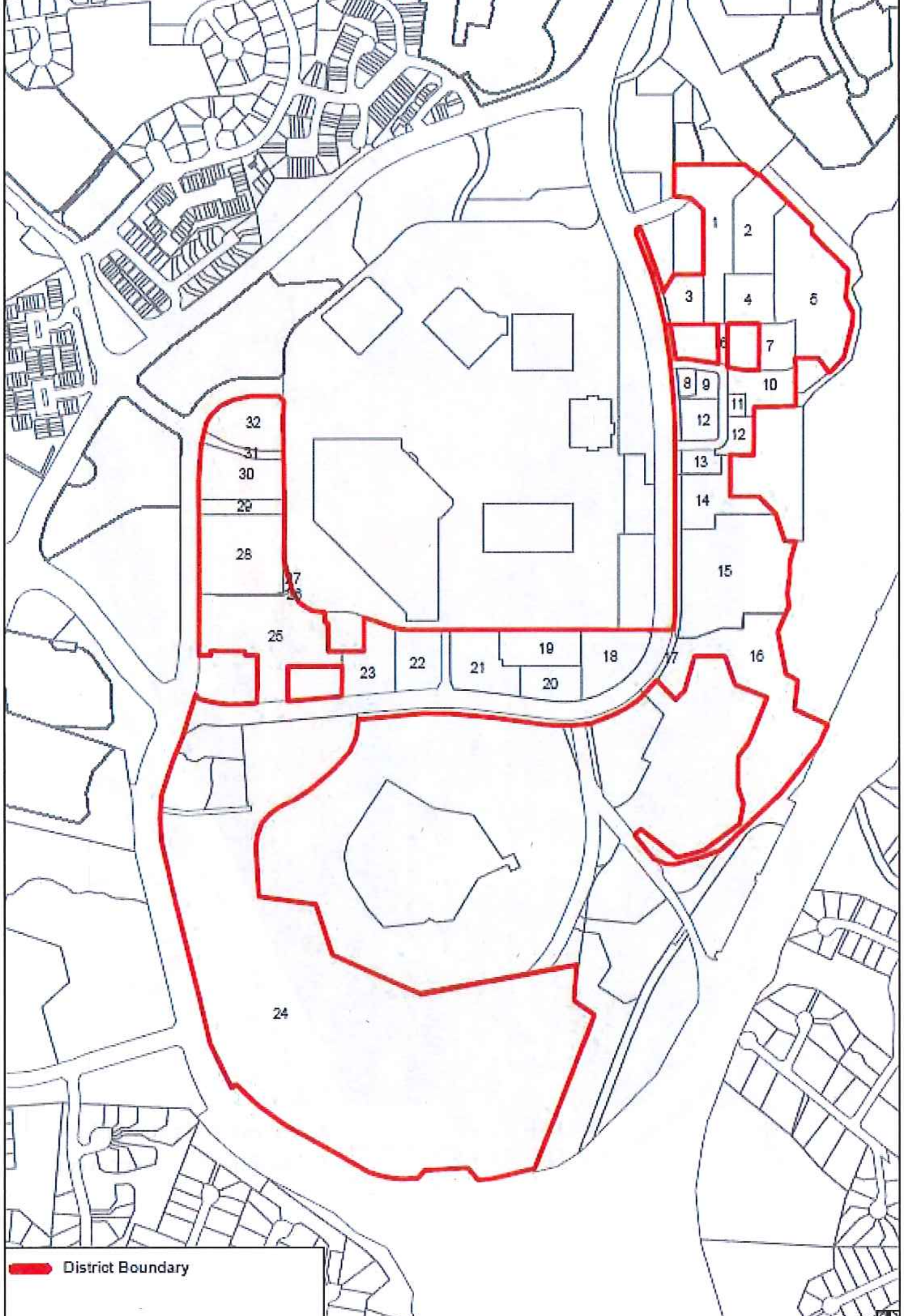
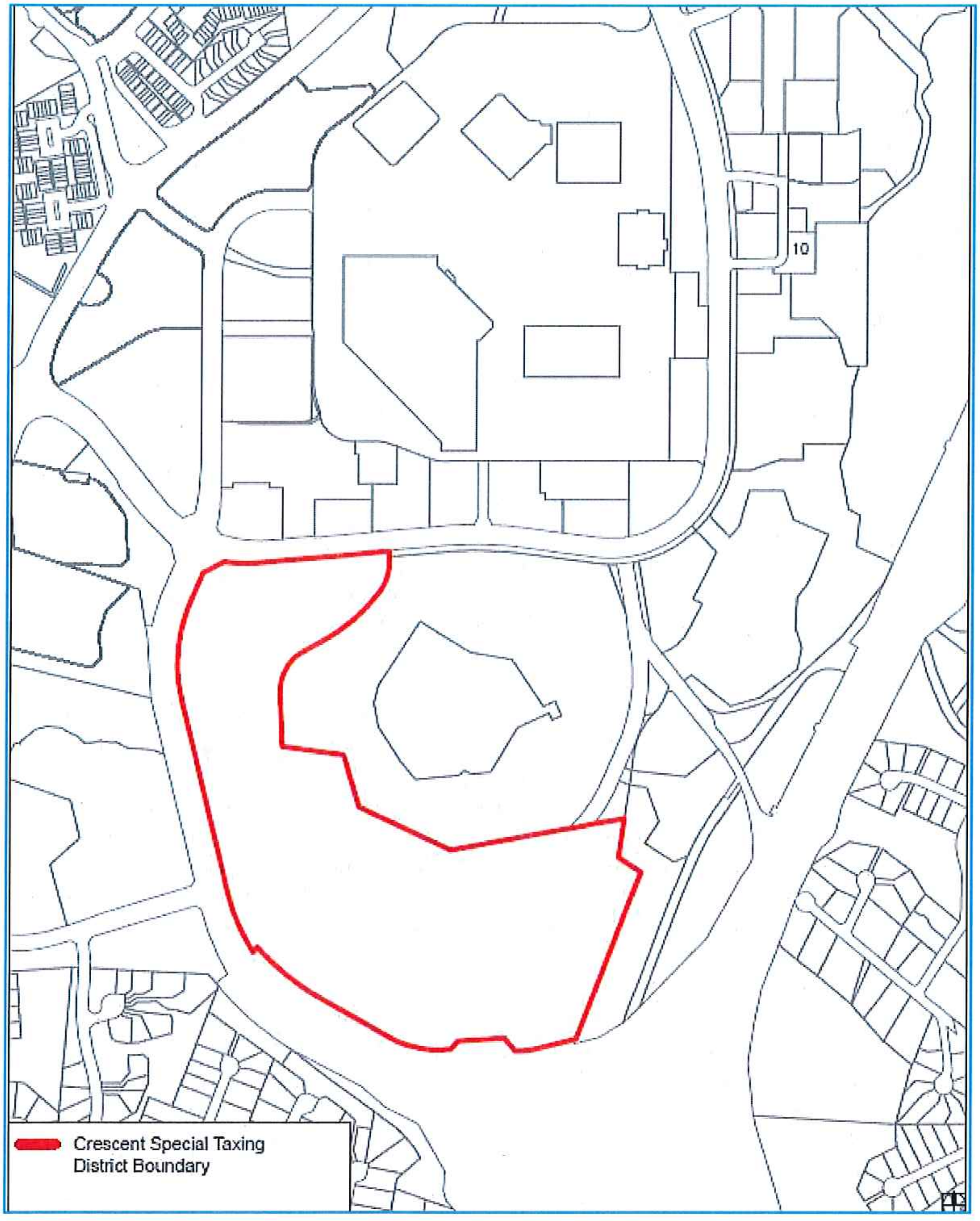


EXHIBIT C
Boundaries of Crescent Special Taxing District



II. Summary of Proposed Tax Increment Financing

The creation of a development district encompassing the total proposed development as planned by the Developer is being sought. The boundaries of the Development District will be comprised primarily of property owned by the Developer in Downtown Columbia and will consists of development located in the following neighborhoods: the Warfield, Symphony Overlook, Lakefront and Lakefront Core, and Crescent. Several parcels included in the Development District boundaries are owned by affiliates of HRD and included to meet legal requirements for the parcels to be contiguous. The Project is located in the southern portion of Downtown Columbia, primarily in the Crescent Neighborhood, as identified in the DCP. The aforementioned Exhibit A identifies the Project area within the greater Downtown Columbia area. Approval of the proposed Development District will establish the base value for purposes of calculating available tax increment revenues.

The Developer has requested tax increment financing for $171 million in public improvement costs, of which $128 million has been determined as eligible to be financed and supported by the tax increment revenues generated by the proposed development within the Development District. The contemplated enabling legislation is anticipated to authorize maximum proceeds in an amount not-to-exceed $90 million, for which two bond issuances are proposed to be issued relating to the first phase of development in the Crescent. The first two series of bonds, planned for 2016 and 2017, respectively, are expected to be issued to support the Crescent Area 1 development. Net proceeds financed by the two series of bonds are estimated to be approximately $61 million.

The Special Taxing District will also be authorized pursuant to the request for tax increment financing and will encompass one parcel, Parcel 15-019921, and includes two distinctive development areas: Crescent Area 1 (the "Project") and Crescent Area 2. Three possible series of bonds are contemplated to support both the Project and Crescent Area 2 development, with estimated total net proceeds of $86 million. It is anticipated that two additional special taxing districts will be created as additional bonds supported by subsequent phases of development are proposed and authorized to be issued. The creation of additional special taxing districts, as well as the issuance of additional bonds exceeding the anticipated current proposal in an amount not-to-exceed $90 million, will need to be authorized by the County Council.

The bonds would be secured by real property tax increment revenues generated within the Special Taxing District and from the Metropolitan, with any shortfalls paid by a special tax levied upon the property within the Special Taxing District. (Note, under Maryland law, all tax increment revenue with the Development District would be pledged to the tax increment bonds; however, the tax increment outside of the Special Taxing District would be pledged after tax increment and special taxes from the Special Taxing District. As a result, the Developer would be responsible for producing sufficient tax revenues from the Special Taxing District to repay the bonds.)

III. Background Information

A. The Downtown Columbia Plan

Tax increment financing is an implementation tool for the County. The purpose of a TIF is to help achieve goals of the County. As a result, one goal of the TIF Guidelines is to ensure that any private development that receives public financing also adheres to the General Plan and any other relevant County plans. The Project is part of the larger Downtown Columbia area; as such, it must be developed in accordance with the *Downtown Columbia Plan* (the "DCP"), an amendment to the General Plan. The DCP, adopted by the County Council on February 1, 2010, establishes a thirty-year master plan for the revitalization and redevelopment of Downtown Columbia. The overarching goal of the DCP is to create a vital Downtown Columbia "in which residents can live, shop, work, entertain, exercise, and enjoy cultural opportunities in an enriched natural setting."

The DCP identifies six new and reconfigured neighborhoods within Downtown Columbia: Warfield, the Mall, the Lakefront and Lakefront Core, the Crescent, Merriweather-Symphony Woods, and Symphony Overlook. Refer to the attached Exhibit A for a map of the neighborhoods in Downtown Columbia.

The DCP provides guidelines for building design and use, but also stresses the need for transportation connectivity and environmental sustainability. The Project's compliance with the DCP thus necessitates the inclusion of abundant public space, bike-path and walking amenities, pedestrian-friendly street networks with improvements to existing major intersections, and sufficient public parking. To support a more compact and vertical development scheme for Downtown Columbia, the DCP also recommends the use of structured parking. The DCP states that, while "**most of the enhancements, amenities, and services recommended (therein) will be provided through private investment, a small portion of the public infrastructure, such as public parking garages, may be financed through... tax increment financing... bonds**" (*Downtown Columbia Plan,* page 63).

The DCP seeks to enhance multi-modal connectivity through the investment of transit programs and up-graded road systems. Specifically, the DCP states, "**Such a system should include a connected network of local, collector, and arterial streets; existing, new, and improved transit facilities and services; and a network of sidewalks, on-street bike lanes and off-street pedestrian/bike paths and trails**" *(Downtown Columbia Plan, page 35).* The DCP further outlines that it is recommended that "**private developers, not current residents, be responsible for the cost to design, permit and construct, in addition to their own buildings and facilities, all necessary County roads, intersections and sidewalks, including upgrades to existing roads in accordance with the Adequate Public Facilities Act and new non-program sized sewer and water lines within Downtown Columbia**" *(Downtown Columbia Plan, Page 70).* However, the DCP also indicates, "**Responsibility for funding and construction and implementing these improvements and programs will be shared among the private sector, public-private partnerships, Howard County (through the Adequate Public Facilities road excise tax and tax increment financing) and/or public sector capital budgets**" *(Downtown Columbia Plan, page 39).*

The qualified improvements shown in Tables III and IV, which are proposed to be financed with TIF funding, are among the public improvements mandated in the DCP. As previously noted, the DCP recommends roads be financed by the private sector but also mentions the use of a public-private partnership as a source of funding. A more detailed discussion of the public improvements proposed to be financed by the bonds is discussed subsequently in Section III.D.

The County must evaluate the request by the private sector for the use of tax increment financing to fund certain improvements identified within the DCP. Using the established guidelines, the County can evaluate the best means for implementation of the DCP while furthering the County's goals to create a vital Downtown Columbia.

B. Proposed Development in the Development District and Project

Developer: The property with the Development District and the Project is being developed by the Developer, a New York Stock Exchange traded company headquartered in Dallas, Texas. The Developer replaced General Growth Properties as the Master Developer of Downtown Columbia.

Proposed Development: As planned, the private uses to be built within the Development District include apartments, town homes, condos, offices, restaurant and retail space, civic space, and a hotel. At build-out, the proposed development will be a vibrant, walkable, urban community, complete with ground floor retail consisting of national and boutique tenants, hi-rise residential and commercial buildings, pockets of open space dispersed throughout, and parking garages to provide for urban density. Additionally, civic and recreational space is provided for the benefit of the County, including a potential new library, fire station, and public park. The Project consists of Crescent Area I of the larger Downtown Columbia development. Delivery of the Project, Crescent Area I, is expected in 2020 for the various components. Table II on the following page shows the planned development for the Development District and the Project.

TABLE II
Projected Development

Development	Development District	Project (Crescent Area 1)
Residential	(Units)	(Units)
Rental		
Market rate	2,444	705
Market rate (Metropolitan)	817	817
Affordable/LIHTC	377	46
Sub-total	3,638	1,568
For Sale		
Condos	234	-
Townhomes	88	-
Sub-total residential	3,960	1,568
Commercial	(Square Feet)	(Square Feet)
Office	3,429,300	963,000
Retail	204,601	127,276
Restaurant	160,780	83,455
Civic/recreation	70,000	
Sub-total commercial property	3,864,681	1,173,731
	(Rooms)	(Rooms)
Hotel	250	-
Parking	(Spaces)	(Spaces)
Privately financed parking garages	11,904	2,254
Proposed public financed parking garages	5,851	2,963
Surface parking	894	-
Sub-total parking	18,649	5,217

Legislation is currently proposed that would amend the allowable uses for the property in the Development District. Amendments to Section 125 of the Howard County zoning regulations are contemplated to provide for affordable income units in Downtown Columbia. The uses shown in Table II are within the guidelines set forth in the proposed zoning amendments to the DCP, which recommends development of 5,500 additional housing units, 900 affordable units, 640 hotel rooms (and an unspecified amount of convention/conference/exhibit space), approximately 1,250,000 square feet of additional retail use, and 4,300,000 square feet of additional office use. In addition to the above-stated uses, public parking spaces in structured garages are recommended to facilitate the new uses and encourage a "park once" approach.

Cost of Improvements: According to the Developer, the estimated total cost of the private development shown in Table II is approximately $2.340 billion, of which the Developer has requested approximately $171 million be considered as publicly financed through the use of tax increment financing. Of the $171 million in estimated total public costs, approximately $128 million has been deemed qualified for public financing after considering available revenues and policy discretion. Therefore, of the total estimated cost of $2.340 billion, approximately $2.21 billion would be privately financed, while $128 million would be financed by the County with tax increment financing. This results in $17.28 of private funds invested for each dollar of the County's investment through tax increment financing for the total Development District.

C. The Districts

Application Status: The Developer, acting as Applicant, has submitted an "Application for Creation of a Tax Increment Finance District and Tax Increment Financing" for consideration, dated March 10, 2016.

The owner of record, Howard Research and Development Corporation, which owns the parcel containing the Special Taxing District, has submitted a "Request for the Creation of a Special Taxing District and the Issuance of Special Obligation Bonds" for consideration, dated March 30, 2016.

In conformance with the TIF Guidelines, legislation has been drafted for the creation of the Development District and the Special Taxing District, as well as the authorization for the issuance of bonds.

Development District: The Development District is approximately 136 acres and includes the entirety of the Crescent neighborhood identified in the DCP, as well as portions of the Warfield, Symphony Overlook, the Lakefront Core, and the Lakefront neighborhood. All components of the Project shown in Table II are located within the Development District. Tax increment revenues generated by property within the Development District are proposed to be available for payment of debt service. Refer to the attached Exhibit B for a map of the boundaries for the Development District.

Crescent Special Taxing District: The Special Taxing District includes only a portion of the property in the Developed District and is approximately 60 acres on a single parcel within the Crescent neighborhood. Additional special taxing districts will need to be created before bonds would be issued for development outside of Special Taxing District. It is anticipated that all new development for which tax increment bonds are issued would be in a special taxing district.

Except for development associated with the Metropolitan (as further discussed below), all components of the Project shown in Table II are located within the Special Taxing District. Future development associated with Crescent Area II is also located within the boundaries of Special Taxing District. Bonds are sized such that in the event that tax increment revenue generated by the Project is insufficient to pay debt service, special taxes would be levied upon property in the Special Taxing District. It should be noted that the Developer has requested the County include tax revenues from the Metropolitan, a newly developed apartment building located in the Warfield neighborhood, for the purpose of increasing incremental revenues available to size bonds and pay debt service. The bond sizing shown herein includes the tax revenues generated by the Metropolitan and Crescent Area I. Parcel 15019921, which is the property within Special Taxing District, is vacant property. Construction has started on the northern portion of the parcel to complete a 200,000 square foot office building. Refer to the attached Exhibit C for a map of the boundaries for the Special Taxing District.

D. Funding Request

Improvements to be Funded: The Developer has requested TIF bonds be used to finance $171 million in infrastructure costs. Table III shows the improvements requested by the Developer. County staff and advisors have reviewed the requested budget and have identified $149 million in estimated costs to be available for public funding based on both legal and policy constraints.

TABLE III
Public Improvement Budget – Total Project

Improvement	HRD Budget	Qualified
Road segment 1 improvements	$11,017,173	$10,117,574
Road segment 2 improvements	$6,603,973	$6,603,973
Intersection improvements	$2,898,000	$2,898,000
Storm water roadway	$2,412,134	$2,412,134
Road segment 3 improvements	$6,479,135	$0
Dry utilities	$1,181,250	$0
Multi-use pathway	$1,426,359	$0
Area 3 park	$2,726,390	$0
Area 1 public space	$519,677	$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 spaces)	$8,404,167	$0
Crescent Phase II public parking structure (C-3R1; 190 spaces)	$5,787,994	$5,787,994
Crescent Phase II public parking structure (C-3LR4; 100 spaces)	$3,046,313	$3,046,313
Road segment 4 (NS Connector/jug handle)	$15,939,000	$15,939,000
Lakefront public parking structure (598 spaces)	$11,780,409	$11,780,409
Symphony Overlook public parking structure (2,000 spaces)	$39,399,360	$39,399,360
Total	**$170,790,245**	**$149,153,668**

A number of the improvements requested by the Developer to be funded with a TIF are excluded based on either legal or policy constraints. Specifically, roads that benefit only the development and are not part of the larger County transportation network have been excluded for policy reasons. Parks and open space that are the obligation of the Developer under the DCP have also been excluded.

Table IV shows the Developer requested public improvements associated with the development in the Project and the qualified improvements eligible to be financed by TIF bonds based on legal and policy constraints.

TABLE IV

Public Improvement Budget – Project Area (Crescent Area I)

Improvement	HRD Budget	Qualified
Road segment 1 improvements	$11,017,173	$10,117,574
Road segment 2 improvements	$6,603,973	$6,603,973
Intersection improvements	$2,898,000	$2,898,000
Storm water roadway	$2,412,134	$2,412,134
Road segment 3 improvements	$6,479,135	$0
Dry utilities	$1,181,250	$0
Multi-use pathway	$1,426,359	$0
Area 3 park	$2,726,390	$0
Area 1 public space	$519,677	$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 spaces)	$8,404,167	$0
Total	**$94,837,169**	**$73,200,592**

E. Summary of Findings

Districts Do or Do Not Meet Statutory Requirements: As subsequently described, the Application provides sufficient evidence that the Districts meet the statutory requirements mandated by the State of Maryland for the formation of such districts.

Districts Do or Do Not Meet TIF Guidelines for Creation of Districts: As subsequently described, the Districts meet the guidelines set forth by the County for the creation of such districts.

Project Does or Does Not Meet TIF Guidelines for Tax Increment Financing: As subsequently described, the Project meets the standards established by the County for consideration of Tax Increment Financing assistance.

Project Does or Does Not Accomplish Objectives Set Forth in DCP: As subsequently described, both the private and public portions of the Project are consistent with the DCP and accomplish specific objectives outlined therein.

Recommendations for Public Financing: The issuance of TIF bonds in an amount up to $90 million is recommended to finance qualified public infrastructure as shown in Table IV based on the findings set forth in this memorandum.

IV. Guidelines for Creation of Districts

A. Background on Guidelines

The Development District will be created pursuant to Sections 12-201 through 12-213, inclusive, of the Economic Development Article of the Annotated Code of Maryland (the "TIF Act"). The Special Taxing District will be created pursuant to Sections 21-501 through 21-523, inclusive, of the Local Government Article of the Annotated Code of Maryland (the "Special Taxing District Act"). Both the TIF Act and the Special Taxing District Act (together, the "Acts") codify specific criteria for the creation of such districts.

As summarized in Table I, the DOF has established the TIF Guidelines to ensure that any proposed district meets the statutory requirements of the Acts and that tax increment financing for a proposed district will accomplish its intended benefits. Five guidelines evaluate the establishment of the Districts and five guidelines evaluate the criteria for issuing bonds.

The following Section IV outlines each of the TIF Guidelines for creation of the Districts and whether the Districts meet the criteria set forth under the TIF Guidelines.

B. Guideline #1: Proposed Public Improvements Must Meet Requirements of TIF Act

Response: Application meets Guideline.

Rationale: The proposed improvements identified in Section III-D ("Improvements to be Funded") of this report fall within the approved uses codified in the TIF Act. TIF bonds issued on behalf of the Project are expected to finance some of the construction costs of public roads, intersection improvements, public space, and parking garages. Such use meets the eligibility requirements for public financing under the TIF Act.

Policy limitations have also been applied to this guideline, resulting in certain improvements being eliminated from the request by the Developer. These improvements are shown in Tables III and IV.

C. Guideline #2: a) Desirability of Establishing Special Taxing District to Supplement Tax Increment Revenues Must Be Evaluated; b) Proposed Public Improvements Must Meet Requirements of Special Taxing Districts Act

Response: The establishment of the Special Taxing District is desirable to supplement the tax increment revenues. The proposed public improvements meet the requirements of the Special Taxing Districts Act. At this time, the Special Taxing District is proposed to be created. Additional Special Taxing Districts are proposed and will need to be created for future development in the Development District. This would occur before tax increment bonds are issued for development not in the Special Taxing District.

Rationale: Establishment of a Special Taxing District is beneficial for the following reasons:

- Although tax increment will be the primary security for the bonds and the bonds sized so that said tax increment will be sufficient to pay debt service (see Attachment #1: *Tax Increment Financing Projection* by MuniCap, Inc., the "Projections"), the Special Taxing District provides additional security in the event that the Project is delayed, the development plan is altered, market conditions change, the assessed values of the Project are lower than anticipated, the ad valorem tax rate is materially lowered, or for any other reason that might cause tax increment revenues to be lower than projected.
- The use of a special taxing district will facilitate efficient marketing of the bonds and provide the best opportunity to obtain the most favorable interest rates.
- The owner of the property within the Special Taxing District has requested its creation and presumably understands the benefits and associated risks.
- The special tax would be levied only in years when the incremental revenues available for debt service are insufficient to pay debt service and then only in an amount sufficient to pay the shortfall from those revenues.
- A special taxing district incentivizes the Developer (and any potential successors) to proceed aggressively to finish the Project. An efficient delivery of the Project ensures that tax increment revenues are realized as soon as possible, thus mitigating the Developer's exposure to the levying of a special tax. Moreover, the shorter the time-frame for completion of the private development, the sooner that the County's public goals can be achieved.
- The presence of the Special Taxing District protects the County's fiscal reputation by guarding against possible default on the bonds.
- Other jurisdictions in Maryland have required a special tax district when TIF bonds have been publically issued, establishing this approach as a best practice in the issuance of TIF bonds.

Under the Special Taxing District Act, bonds may be issued "for the purpose of financing, refinancing or reimbursing the cost of the public improvements serving the special taxing district. . ." The previously identified proposed public improvements meet the eligibility requirements of the Special Taxing District Act.

D. Guideline #3: Public Improvements Must Further County Goals and Policies

Response: Application meets Guideline.

Rationale: The General Plan lists tax increment financing incentives as a means to assist with the redevelopment of commercial and industrial properties, while the DCP identifies tax increment financing as a means of financing a portion of the public infrastructure necessary for the development of Downtown Columbia.

The DCP states that its aim is "to continue the evolution of Downtown Columbia into a mixed-use urban center supported by a variety of open spaces and amenities in a pedestrian-friendly environment." The need for parking facilities is identified therein as necessary to establish Downtown Columbia as a transit hub, to successfully operate the Merriweather

Post Concert Pavilion once the land currently used for parking is enhanced or developed, and to create an efficient street network.

The DCP concludes: "This Plan seeks to create a Downtown Columbia served by a connected street network that would offer more route choices, disperse traffic over a wider network, provide more capacity and result in shorter, more direct trips with less delay." and "Structured parking would support the more compact, vertical development scheme of Downtown Columbia. The goal of this development effort is to provide a 'park-once' approach, whereby visitors to Downtown Columbia will park upon arrival in centrally located parking structures and walk or take public transit to the retail and commercial uses, as well as parks and recreational facilities being provided throughout the area. The parking structures would replace the large, open, surface parking lots that exist today, making room for more compact, higher density development." Moreover, the DCP specifically sites multi-modal transportation systems and public parking garages as public improvements that may be financed using TIF bonds.

The use of tax increment financing to provide major intersections, connected street networks, and structured parking within Downtown Columbia, provided all other guidelines are met and provided the parking facility is designed, constructed, and operated in a manner consistent with DCP, is consistent with County goals and policies.

E. Guideline #4: Private Improvements Must Further County Goals and Policies

Response: Application meets Guideline.

Rationale: As stated, the DCP's goal is for Downtown Columbia to evolve as a mixed-use urban center. To achieve that goal, the DCP provides specific recommendations for development. Table V below provides a comparison of the development as recommended in the DCP, inclusive of the proposed zoning amendments, and the development within the Development District.

TABLE V
Comparison of County Development Goals and Development District

Development Type	DCP Recommendation As Proposed	Project Plan
Residential	**5,500** total additional residential units	3,583 units
Residential - Affordable	**900** affordable units	378 units
Hotel/Conference Center	**640** additional hotel rooms w/ meeting and conference facilities	250 additional hotel rooms
Retail/Restaurant	**1,250,000** square feet of additional retail and restaurant uses	365,381 square feet of additional retail and restaurant uses
Office	**4,300,000** square feet of additional office uses	3,429,300 square feet of additional office space

As shown in Table V, the Development District development is not only consistent with County's goals for development set forth in the DCP, but it contributes significantly towards them. The Development District development warrants consideration for financing due to its potential to further the evolution of Downtown Columbia into the dynamic mixed-use urban core contemplated in the DCP.

The property covered by the Development District is currently zoned NT ("New Town") under Section 125 of the Howard County Zoning Regulations. All development activity will require the submission and approval of a Final Redevelopment Plan and Site Development Plan, some of which have been approved to date as outlined in the application, providing additional assurance that the Project will be developed as indicated in the applications reviewed herein.

F. Guideline #5: Project Must Provide Benefits to County Residents Outside District

Response: Application meets Guideline.

Rationale: As shown in Table II, a mixed-use development is proposed to include multifamily apartments, townhomes, condos, hotel space, office space, and supporting retail and restaurants. The preceding discussion of Guideline #4 describes how this development advances the goals for Downtown Columbia set forth in the DCP. Beyond the Districts and Downtown Columbia, numerous potential benefits of the project extend to residents elsewhere in the County.

- The private development includes 3,429,300 square feet of office space, which will provide services to patrons that reside well outside the Districts. An estimated 11,296 employees will work at the office site [see Attachment #1: Projections], and many will reside within the County but outside the Districts.
- The private development includes 365,381 square feet of new retail and restaurant, which will provide new shopping and dining opportunities within the County. Moreover, this space is projected to create an additional 1,405 jobs [see Attachment #1: Projections].

- The 250 rooms of hotel will primarily service visitors from outside the Districts. The development is projected to create an estimated $339,436 annually in additional County tax revenue in the form of the Hotel Occupancy Tax, very little of which will be paid by current County residents. Moreover, the hotel is projected to create an additional 59 jobs [see Attachment#1: Projections].
- Total projected direct, full time equivalent jobs for the development: 12,760 [see Attachment #1: Projections].
- As noted, the project contributes to the vitality of Downtown Columbia. A vital Downtown Columbia provides a strong tax base, enhances property values, and serves as an economic engine, the benefits of which extend greatly beyond the boundaries of the Districts.
- The street networks will provide pedestrian-friendly connectivity that enhances access and circulation within downtown. Furthermore, the streets financed are those that will expand and enhance the County's transportation network, but exclude those that benefit only the proposed new development.
- The public parking will be available for use by employees and patrons of the retail, office, and Merriweather Post.
- The new County roads and County parking garages will provide County citizens, including those in the Development District, with improved accessibility from Broken Land Parkway to Merriweather Post Pavilion, as well as improved parking options for the several existing commercial spaces.
- The proposed intersection improvements will provide a County-wide benefit to citizens by enhancing the rate at which traffic flows in the downtown area.

G. Summary of District Application Review

Response: Application meets all TIF Guidelines regarding creation of the Districts. Approval of the Development District and Special Taxing District is recommended.

V. Guidelines for Issuance of TIF Bonds

A. Background on Guidelines

As summarized in Table I, the DOF has established five TIF Guidelines to ensure that tax increment financings are in compliance with the TIF Act and make sense for the County. The following Section V outlines several conditions regarding the use of TIF bonds to ensure that the tax increment financing will further County goals and policies and is not adversely affecting the County's overall fiscal health.

TIF bonds are requested in an amount not to exceed $90 million for the Project within the Special Taxing District to finance a portion of the costs of the public infrastructure described in Section III-D ("Improvements to be Funded") of this memorandum. The TIF Act codifies specific criteria for the issuance of such bonds.

B. Guideline #1: Public Investment for Project Must Appropriately Leverage Private Investment

Response: Application meets Guideline.

Rationale: Public investment is most productive when it requires additional private investment, leveraging the investment by the County. Best practices would generally provide for each dollar of public investment should be leveraged by five to ten dollars of private investment. Based on Developer estimates of $618 million in private development in the Special Taxing District and the preliminary tax increment financing request of $61 million, the Developer is investing $9.11 of private development for every dollar of public financing for the Crescent Area I, which is at the top of the range of recommended best practices.

C. Guideline #2: Public Investment Must Be Necessary

Response: Application meets Guideline

Rationale: The DCP sets forth a vision of dense, vibrant, mixed-use development for Downtown Columbia. As part of that vision, public parking facilities will play a key role in facilitating a "park once" environment. Additionally, the high development standards, with numerous mandated aesthetic and environmental enhancements, result in costs of development within Downtown Columbia that are generally higher than costs elsewhere. Moreover, the need for structured parking facilities instead of surface lots significantly increases the cost of development.

MuniCap reviewed typical market returns for similar projects by discussing market capitalization rates with the Maryland State Department of Assessments and Taxation, and concluded that the current market rate of return for this type of development is approximately 7.53%. MuniCap also estimated Developer returns under both a TIF and non-TIF scenario. Under the non-TIF scenario, the estimated rate of return was prohibitively lower than the market rate of return, to the extent that it would likely either preclude the private investment of a sophisticated developer or compel such a developer to build the Project with less density, to limit costs of structured payment and to lower standards. Tax increment financing could potentially increase the rate of return to a level that would incentivize a developer to proceed with developing the Project in a manner that meets the requirements of the DCP.

A "look-back" provision will be contained in the agreement with the Developer. This means that the Developer will submit audited statements to show profit earned from the development. The County and the Developer will agree on a reasonable profit to be earned by the Developer. The County and Developer will share in the excess profit (above the "reasonable profit") which the County may use to pay down the TIF debt, thus reducing the time that the incremental revenues will be diverted from the General Fund.

D. Guideline #3: Project Must Be Economically Viable

Response: Application meets Guideline.

Rationale: The *Market Analysis for Development In Downtown Columbia* (the "Market Study") by Robert Charles Lesser & Co. Real Estate Advisors (RCLCO) and dated May 2, 2016 reviews the market viability of the Project. As stated in the Market Study, the strong demographic base of affluent and well-educated households in Howard County bodes well for residential development and creating the demand for office and retail tenants. The distribution of incomes across all age groups skews higher than in neighboring counties or the Baltimore-Washington region overall. These factors establish an environment that generates the demand for new, high quality residential product further creating a synergy for a walkable, mixed-use development that will likely increase the rate of absorption for Downtown Columbia retail, office, and hospitality market segments.

Specifically, the Market Study suggests that there is demand for both high-end and luxury rental residential units, as well as senior and affordable units that is not currently being met in Howard County. Additionally, the Market Study suggests that the Downtown Columbia area should be able to capitalize on the Baby Boomer and Millennial generations as it relates to the for sale townhome and condominium product types. The proposed development residential plan will aid in fulfilling this unmet demand.

The Market Study further encourages aggressively pursuing residential, retail, office, and hospitality opportunities, and quantifies and supports the potential of the Project and the broader development plans for Downtown Columbia. Based on the existing retail, Downtown Columbia is further poised to attract new, high-performing retail space as a result of the proposed increase in households. Similarly, the expanded retail segment and number of households will further enhance the desirability for new office space. Finally, the Market Study indicates that the Downtown Columbia current supports the addition of both upscale hotel rooms through a major flag or a high-end boutique hotel, as well as limited service hotels in the form of either extended stay or midscale limited service hotels. Each of the proposed commercial components is supported by the findings in the Market Study.

The Project as planned meets the recommendations of the Market Study and should be successful if delivered as proposed.

E. Guideline #4: Tax Increment and Revenues Must Be Sufficient for County Expenditures

Response: Application meets Guideline.

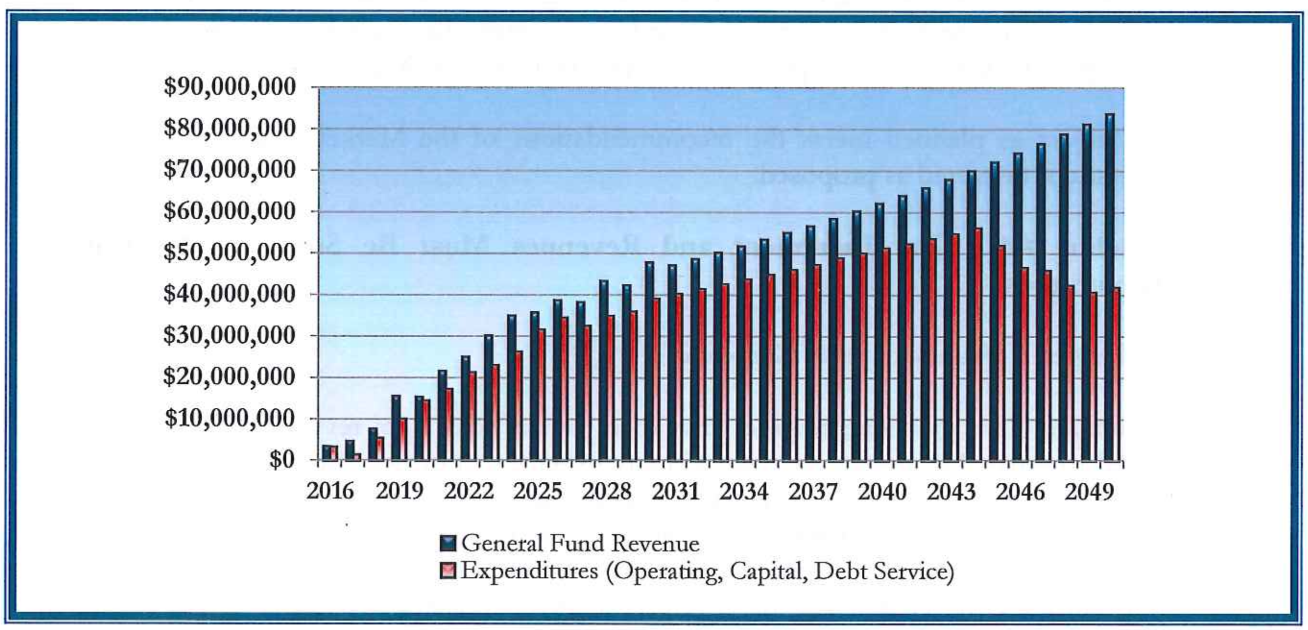
Rationale: This guideline requires that there be sufficient tax revenue, net of any taxes applied to repay TIF bonds, to cover County expenses. Further, the County would expect the development to have a positive financial impact on the County even with the TIF. A fiscal analysis has been prepared by MuniCap to estimate the fiscal impact of the proposed development with the TIF. This fiscal impact analysis was based on the analysis prepared by the County for the DCP. The fiscal impact analysis indicates that tax revenues should be sufficient to cover County expenses; however, the margin is low, creating risk for the County as the fiscal impact is based on estimates and it is prudent for there to be some positive margin in these estimates. Further, the fiscal impact analysis indicates that benefits to the County are back loaded.

To ensure the County is able to cover its costs of services from the development of Downtown Columbia, set asides in incremental tax revenues were put in place to fund County costs. Incremental tax revenues are first applied to cover estimated debt service on the TIF bonds after making available tax increment revenues to cover estimated debt service on a County general obligation bond to fund $30 million of elementary school costs. The second application of tax increment revenues will flow to the County to cover its anticipated costs of operating and capital expenditures. Capital expenditures reviewed and considered include items identified in the DCP such as a library, fire and police, an art center, an interchange of Route 29, transit center and public schools. Surplus incremental tax revenues over the first and second uses described above would then be applied to cover debt service and ultimately back to the County to the extent it exceeds debt service.

The fiscal impact analysis estimates that the tax revenues created by the development, net of projected debt service, operating expenditures, and capital costs, are projected to be approximately $408 million projected through fiscal year 2051 (see Attachment #1, Projections). The increased cost of County services and capital expenditures is estimated to be $944 million, while the estimated increase in revenues available to offset those costs, after payment of debt service, is $1.352 billion.

Chart I below graphically contrasts the projected annual revenues from the Project with the associated projected County annual expenses. As shown in Chart I, the majority of the revenue surpluses to the County occur in later years as debt service is paid off, which results in back-loaded benefits to the County with the margin very thin in many years.

Chart I
Revenues vs. Expenses



F. Guideline #5: Bonds Must Not Pose Risk to County's Credit Rating and Overall Fiscal Health

Response: Application meets Guideline, although there would be more confidence in meeting this guideline if the margin in the fiscal impact analysis were larger and the benefits not as back–loaded.

Rationale: The bonds do not pose a risk for the following reasons:

- The bonds do not constitute a general obligation of the County;
- The proposed public investment is very small in comparison to the overall County capital budget ($61 million compared to $5,496.952 billion in total capital appropriations, or 1.1%);
- The Special Taxing District provides additional security against default.

Conclusions

The proposed redevelopment of the Project provides the County with an opportunity to foster a unique urban type of development and will act as a catalyst to the greater Downtown Columbia area. Consistent with the County's DCP, the Project will increase density, while also establishing a vibrant live, work, and play environment, fulfilling the County's vision for its downtown core. Due to the magnitude of the Project and the public infrastructure required to fulfill the County's and the developer's collaborative vision, the Project is not feasible without the County's financial participation. The Project meets all TIF Guidelines for the provision of tax increment financing.

As noted in Guideline #4, the net fiscal impacts, while positive to the County, result in lower than anticipated coverage and back-loaded benefits. While there are years in which revenues are insufficient to offset the costs the County will incur to service the Project, the cumulative net fiscal impact to the County is positive. As previously described, the County has established set asides in revenues to ensure adequate revenues will flow to the County to cover its costs of operating and capital expenditures.

In the event that the Developer's profit exceeds a reasonable return at a point in the future, the County will require payments from the Developer. The details of this agreement and payment structure will be included in the "look-back" provision that will be included as part of the documentation for the districts. This will allow the County to reduce the TIF contribution, should it prove to be unnecessary.

As a result of the review of each of the Guidelines in conjunction with the proposal, approval of the issuance of TIF bonds in an amount up to $90 million is recommended.