

# **BALTIMORE CITY'S INVESTMENTS IN THE HOTEL INDUSTRY**

By  
Arlisa W. Anderson

Practicum Advisor: M. J. Brodie

A practicum thesis submitted to Johns Hopkins University in conformity with  
the requirements for the degree of Master of Science in Real Estate

Baltimore, Maryland  
May, 2010

## Executive Summary

The City of Baltimore has made the transition from being an industrial city to a tourism destination over the past several decades. From the City's first urban renewal plan (the Charles Center Urban Renewal Plan) which was approved in 1959, Baltimore has undergone a tremendous economic revitalization. Since that time, the City assembled many acres of land to create viable development parcels for public spaces as well as for the private sector. By 1983, with the development of the now world-famous Inner Harbor, Baltimore became a tourist destination and an example for industrial cities around the world on how to revitalize their desolate industrial areas.

In order for the City of Baltimore to be able to serve the millions of tourists that visit the City annually, additional hotel rooms had to be built. The City's first hotel investment was the Hyatt Regency Hotel, located at 300 S. Charles Street, which opened in 1985. As the tourism industry in the City continued to grow the need for additional hotel rooms also grew and required that the City assist with the development of more hotels because the private sector was not willing to invest in hotels without getting a very high preferred return on their investment. The City has invested in hotels in several ways, such as via favorable acquisition terms, Payment In Lieu of Taxes (PILOT -- authorized by State Law), and/or low interest loans to developers.

Some of those hotel projects were:

- Hyatt Regency (1981 – UDAG Grant)
- Renaissance Hotel (1981 – City assembled site and built garage)
- Harbor Court d/b/a Intercontinental Hotel (1986 – City assembled site)
- Harrison's Inn @ Pier 5 (1989 - City acquired the project while in receivership)

- Marriott Waterfront (2001 - PILOT, loan and grant)
- Marriott Residence Inn (2005 – PILOT)
- Hampton Inn @ Camden Yards (2006 – City assembled site)
- Hampton Inn and Suites (2005 – Grant)
- Hilton Baltimore (2008 - Tax-exempt revenue bonds)

The City has enjoyed increased hotel occupancy taxes and real property taxes from its investment in hotels. Although the City has made significant investments in hotels, the private sector has also made substantial investments because Baltimore's hotel market is a viable long-term situation.

This paper will review the public participation that the City of Baltimore has made in some of the hotel projects for the past 25 years and the benefits that the City has received via hotel occupancy taxes, business personal property taxes, real property taxes and jobs for city residents.

The City of Baltimore has entered in the development of hotels because of the economic benefits of jobs and taxes. Typically hotels employ Baltimore City residents, depending on the size of the hotel, the employees could be more than 60% city residents. Hotels generate taxes that are collected by the City and used for many services that are utilized by the City's residents. Some of those taxes are hotel, real estate, personal business property, parking, phone and energy taxes. The hotel taxes are calculated on the room rate. The entire hotel tax goes to the City while sales taxes are collected entirely by the State of Maryland. Baltimore City charges 7.5% for the hotel occupancy taxes; those funds are used to pay a portion of the Convention Center

Bond debt service, 40% is given to Visit Baltimore's budget and the balance is deposited into the City's General Fund.

Visit Baltimore (formerly the Baltimore Area Convention and Visitors Center (BACVA)) is the official sales and marketing organization for Baltimore that generates economic benefits for stakeholders through the attraction of convention, group and leisure visitors (Annual Report, 2009-2010). Visit Baltimore, the official destination development and marketing organization for the Greater Baltimore region was established in 1982, they are a 501(c)(6) not-for-profit corporation. Visit Baltimore serves as the liaison between customers and stakeholders; customers include meeting planners, tour operators, individual tourists and media. Stakeholders include government, citizens and member organizations. Member organizations represented include lodging, dining, arts, attractions, shopping, transportation, associations and government agencies. Visit Baltimore helps generate economic benefits to the Greater Baltimore region through the power of collaboration and partnership. Visit Baltimore provides stakeholders with the necessary tools and information to make their products and services competitive in the marketplace whose vision is for all stakeholders and citizens of Greater Baltimore to support the local tourism industry because they understand how the economic benefits generated - jobs and taxes - improve their quality of life (Visit Baltimore, 2010).

## **Baltimore's Revitalization**

By 1954, the first flight of City residents to the suburbs had resulted in a ten-year decline in downtown property values – and therefore a major reduction in the city's tax revenues. Desperation was growing among the leaders of the city's business community, which created a Committee for Downtown to raise private funds for the preparation of a master plan that would be the basis for reversing the physical decline. That task was assigned to the Planning Council for the Greater Baltimore Committee (GBC), chaired by Hunter Moss (who later became chairman of the Urban Land Institute (ULI) (Millspaugh , 2003). Halfway through their planning work, the business leaders concluded that it would take too long to plan for the entire 300-acre central business district (CBD): the “patient” could die on the operating table while the diagnosis was being determined. So the Planning Council set aside the overall master plan temporarily and focused its efforts on the planning of a single project large enough (33 acres) to make a difference, but small enough to be completed within the attention span of the leadership – perhaps ten years (Millspaugh, 2003).

This became the plan for the \$140 million (in 1957 dollars) Charles Center Project, the first in the United States that called for the redevelopment of the very center of downtown. The feasibility of the project was analyzed and endorsed by the Baltimore Urban Renewal and Housing Agency (BURHA), chaired by Walter Sondheim, Jr. Then-Mayor Thomas D'Alesandro, Jr., made it a historic partnership by providing what only the municipal government could deliver – first, the necessary working capital in a \$25 million city bond issue;

and second, the power of eminent domain, put in place when the Baltimore City Council adopted the urban renewal ordinance in 1958 (Millsbaugh, 2003).

The next strategic decision was to create a “delivery system” to implement the plan for Charles Center. This took the form of a quasi-public management team outside of the municipal government, headed by the chairman of the Committee for Downtown, J. Jefferson, Miller, under contract to the City for \$1 a year plus expenses. With the assistance of the GBC members, a formidable network of contacts was assembled to help with the deal making (Millsbaugh, 2003). The first developer was selected in 1959 after a hotly contested design competition was held for One Charles Center (Millsbaugh, 2003), a linchpin in the development. By 1963, three more structures were completed or under construction and another six projects were in the final planning or design stages, including two more office buildings, a hotel, a department store, a theater and an underground garage (Millsbaugh, 2003).

By this time, the shipping industry had completely left the Inner Harbor, for deeper water, and the businesses surrounding the waterfront soon followed. There was an opportunity crying out for new uses to capitalize on the waterfront’s natural ambience, right to the doorstep of downtown. The plan that resulted had three main thrusts: first, a row of prestigious sites for office buildings along Pratt Street facing the waterfront; second, multifamily housing in the eastern and western sectors; and third, in the center, a “public playground” for Baltimoreans along the shoreline of the Inner Harbor. (No serious thought was given to attracting tourists, there were so few that no records were kept). The plan’s basic mandate was to restore access to and enjoyment of the water to the people of the city (Millsbaugh, 2003). It was projected that the

plan would be fully realized within 30 years. However, there was one overarching problem: the federal Interstate Highway Program. In city after city, expressways were being built that cut Central Business District's off from their waterfronts, and for the Inner Harbor planners, an expressway crossing the mouth of the Inner Harbor in front of Federal Hill was a given under existing laws (Millsbaugh, 2003).

In September 1964, the city announced the Inner Harbor Master Plan, and the voters quickly approved a bond issue of \$2 million to start the program. The Charles Center management team was given the implementation assignment, and this time it opted to form a private corporation, Charles Center-Inner Harbor Management, Inc. (CC-IH), which had the same legal powers as any private company, but with the difference that its business was controlled by a contract with the City (Millsbaugh, 2003). At the beginning, the management team was faced with the seemingly interminable administrative and technical processes of urban renewal – the “submerged part of the iceberg,” as it were. That entailed the acquisition of almost 1,000 properties and the relocation of more than 700 businesses – including the city's wholesale produce market, the State's tobacco warehouse, and an operating fish-oil refinery – along with the task of disposing of toxic dredged materials (Millsbaugh, 2003).

In 1969, the momentum built up in Charles Center began to support the first thrust of the Inner Harbor development: the strategy of attracting prestigious office building to sites overlooking the harbor. The USF&G insurance company was the first to come forward, with a proposal to replace its old headquarters building in the financial district with a new, 36-story tower at the focal point of the Inner Harbor – the intersection of Pratt and Light Streets. This

commitment by a major, homegrown corporation lent credibility to the entire project, and it was followed by similar commitments from IBM, the Federal Reserve Bank, the C&P Telephone Company, Equitable Trust Bank, and the Federal Courts (Millspaugh, 2003). Both the Charles Center and Inner Harbor plans relied on a high standard of excellence of design, supported by an advisory Architectural Review Board (ARB) made up of the Deans of School of Architecture from Harvard, the Massachusetts Institute of Technology, and the University of Pennsylvania – chosen because they would have sufficient prestige to overrule the most illustrious of the developers’ architects if necessary. This proved to be important: in Charles Center and the Inner Harbor, the ARB was called on to review the designs of a dozen AIA gold medalists or gold medal firms. In 1980, Charles Center was awarded the ULI’s second Award of Excellence (Millspaugh, 2003). Charles Center and the Inner Harbor continue to be an example of what a public/private partnership can accomplish when both parties are working for the same goals (Bonnell, 2010).

In order to create the successful recreation and leisure project that was envisioned by the Inner Harbor Master Plan, in the 1960’s and ‘70’s, Charles Center –Inner Harbor Management, Inc. had to recruit a top-of-the-line hotel. This took more time and effort than any other aspect of the project, because the existing hotels in Baltimore were failing for lack of business – the effect of the decline of the central city. Under the urban renewal program, all acquired land had to be disposed of in a competitive fashion (Global Harbors Website, 2007). CC-IH staff went to all of the national hotel chains to see if they would participate in a competitive offering of the hotel site. All of them declined, until the hotel was combined with a prominent office building site –



with the idea that a successful office building would subsidize the hotel development (Global, 2007).

## The Incentives

The City of Baltimore has used several economic development incentives that are available to developers. The incentives are used to partially close a gap in the economics of a project. Some of the incentives that have been used in hotel development projects are:

**Payment in Lieu of Taxes (PILOT)** is an economic development tool prescribed by the law under Section 7.501 of the Maryland Annotated Code (the “Old” PILOT Law). Currently there are five types of PILOTs authorized under the law, they are as follows:

- Housing Authority Property (Public Housing) – Housing Authority of Baltimore City (HABC) property is exempt from local and state property taxes provided an agreement is in place to provide for some other payment acceptable to Baltimore City.
- City-Owned Property – State law provides that a property owned by the City and leased to a business for profit is subject to the property tax; however, the City may, by ordinance, exempt City-owned property from City real estate taxes and negotiation a PILOT.
- Low Income Housing – The city can grant PILOT for low income and elderly housing developed by a non-profit corporation or a limited distribution facility.
- Residential Conversion of Commercial Buildings – the City provides certain exemption from property tax for certain vacant and underutilized commercial buildings in the Downtown Management District. The real property must meet

two of the following criteria: (1) the improvement on the property is over 25 years old; (ii) the property was last used as commercial space with accessory uses; or, (iii) the property has been at least 75% vacant for more than three years. The real property must be owned by a person who: (a) is engaged in constructing an operating housing structure or project, including non-dwelling commercial and community facilities; (b) provide a minimum of \$500,000 of private capital in the development of the residential portion of the project; (c) renovates the real property so that at least 75% of the total leasable square footage of the building is used for rental residential housing. The project must be approved by the Mayor's Development Group before the PILOT agreement is written and submitted to the Board of Estimates for approval.

- Commercial and Market Rate Residential PILOT – In 1999, the State of Maryland approved legislation enabling the City to negotiate PILOTs for economic development projects, including new construction of market –rate residential buildings. The maximum PILOT the City can provide is a 95% reduction in real estate taxes normally due absent the PILOT. Developers must submit a detailed information package to the City justifying the need for a PILOT. The City, or its designated agency, must conduct an independent cost-benefit analysis to determine returns to the developer and benefits to the City (BDC website, 2010).

This “New” PILOT law permitted the City to provide exemption from City real property taxes for economic development projects located in Downtown urban renewal areas (Section 7-504.3 of the tax Property Article of the Annotated Code of Maryland). The approved urban

renewal areas are: Camden Station area, Central Business District (formerly Charles Center, Financial District and Municipal Center Urban Renewal Areas), Harbor Campus, Inner Harbor East, Inner Harbor Project I, Inner Harbor West, Market Center, Market Center West and Key Highway. Article 7-504.3 permits a PILOT term not to exceed 25 years if the property owner pays, at a minimum, “the sum of the taxes on the property before the construction or rehabilitation of the project (base taxes) and at least 5% of the Baltimore City real property taxes (incremental taxes) related to the economic development project that would have otherwise been due absent the agreement”. Both the old and new PILOT legislation has been used on hotel projects in the City. A major difference between the old and the new PILOT law is that with the old PILOT law the developer pays a negotiated amount of real property taxes for the term of the PILOT whereas with the new PILOT law the developer has to pay the baseline taxes (taxes before the development occurred) plus a minimum of 5% of the incremental real property taxes. The City PILOTs do not exempt the project from State of Maryland real property taxes (BDC Website, 2010).

Justifying the use of PILOTs requires an understanding of, and agreement on, a set of principals guiding the use (and preventing the misuse) of PILOTs. Analysis must determine that “but-for” the PILOT, the project would not be built in Baltimore City because the rates that the project can charge do not support the cost and/or the private returns are inadequate to assume the risk associated with the development. The project must achieve a clear and well documented public purpose (such as downtown housing, hotels that assist the convention center, alleviation of the downtown parking shortage, major business retention and job growth, the creation of affordable housing or other public economic benefits. The PILOT must not produce a higher

than reasonable market rate of return to the developer and or owner (cash-on-cash returns should not exceed 20 percent). Overall tax revenues to the City (parking, hotel, piggy-back, amusement, and utility) shall increase substantially after the PILOT-assisted project is constructed. The City's goal is to create an economic environment that mitigates the need for PILOTs in the future (BDC Website 2010).

The City of Baltimore Development Corporation (BDC) and the Department of Housing and Community Development (DHCD) are two city agencies responsible for facilitating commercial, industrial, institution, and residential development in Baltimore City. As such, staff from the two agencies are responsible for negotiating PILOT terms (BDC Website, 2010). Once the PILOT concept is approved the project has to obtain City Council and Mayor's approval and the PILOT detailed documents must then be approved by the Board of Estimates before it becomes binding. BDC the City's economic development agency is the entity that does the analysis on some of the projects that requests a PILOT for some City-owned properties and for Commercial and Market Rate Residential PILOTs. BDC's goals is to retain and expand existing businesses; attract new businesses to the City; promote thriving retail districts; increase employment opportunities for Baltimore City residents; expand the tax base by creating new mixed-use industrial, commercial, and residential real estate development opportunities; and support cultural resources. BDC's vision is to lead Baltimore to the forefront of cities in which to live and do business by becoming the preeminent economic development entity in the United States (BDC Annual Report, 2009).

BDC does a very in depth analysis to determine whether a PILOT should be recommended. The Administration typically introduces a City Council Bill for a PILOT for the project, the PILOT legislation is then assigned to the Taxation, Finance and Economic Development Committee, a public hearing on the PILOT is held, and the subcommittee of the council votes on the PILOT and then the Bill goes to the entire Council for a vote. Once the PILOT Bill is voted on in the affirmative, the bill then goes to the Mayor to be signed into law. The PILOT document then has to go to the Board of Estimates for approval. If the Board of Estimates does not approve the PILOT then it can not be implemented. The PILOT does not take affect until after the completion of the project; then the developer will start to receive the benefits. The City has to certify that the project has been completed according to the PILOT Agreement (Van Sant, 2010).

In the case of a PILOT for a hotel, the development cost has to be a minimum of \$20 million in private capital, 10% equity has to be contributed by the developer and the project has to create a minimum of 100 full time equivalent jobs. The City has two hotel PILOTs that are in affect to date, they are for the Baltimore Marriott Waterfront Hotel (under the “Old PILOT” law) and the Marriott Resident Inn Hotel (under the “new” PILOT law). The Marriott Waterfront Hotel is a 752 room hotel with a 620-space parking garage located in Inner Harbor East and the Marriott Residence Inn is a 188 room limited service hotel located in the Central Business District in downtown Baltimore (Clark, 2010).

**Urban Development Action Grant (UDAG) program** is intended to stimulate economic recovery in America’s most distressed urban areas. Enacted in October 1977 as

section 119 of the Housing and Community Development Act of 1977, it provided \$400 million in each of its first two years of operation, fiscal 1978 and 1979 (Webman, 1980 ). Congress provided specific instructions as to who was to receive action grants, but said little about what recipient could do with the money once they received it (Webman, 1980). The law states that UDAG funds should go “to severely distressed cities and urban counties to help alleviate physical and economic deterioration through reclamation of neighborhoods having excessive housing abandonment or deterioration, and through community revitalization in areas with population out migration or a stagnating or declining tax base (HUD, 1977). Congress clearly intended that eligibility be narrowly restricted and that eligibility criteria emphasize physical aspects of urban deterioration (Webman, 1980).

In its strongest direction as to what such programs should include, Congress required that they “be developed as to take advantage of unique opportunities to attract private investment, stimulate investment in restoration of deteriorated or abandoned housing stock, or solve critical problems resulting from population.....tax base” (HUD, 1977). According to the Federal Register, in order for a city to receive UDAG funding they had to have a firm commitment of private resources to the proposed project. Baltimore City was able to satisfy this requirement with the deal they struck with the Hyatt Corporation for the Hyatt Regency Hotel.

**Urban Renewal** has been Baltimore’s City primary effort to redevelop the old industrial areas of Baltimore into a vibrant development project. The effort began in March 1959 with the adoption of the Charles Center Urban Renewal Plan with the intent to revitalize 33 acres of the Charles Center area. The Urban Renewal Plan consisted of the demolition of blighted buildings,

land acquisition of properties to assemble sites for development and to spur other development in the area. Charles Center Management was the organization charged with revitalizing Charles Center. Their goals were direct: to increase the property tax base, to increase the number of people working downtown and enjoying downtown, and to improve the appearance of the area. Urban Renewal Plans were the instrument which provided the City with the authority to assemble the sites for the Hyatt Regency Hotel, Renaissance Hotel, Marriott Inner Harbor Hotel, Harbor Court Hotel, Harrison's Inn @ Pier 5, and the Hilton Baltimore Convention Center Hotel. The development of these sites occurred at different times, under the authority of several Urban Renewal Plans. Although the initial Urban Renewal Plan was called the Charles Center Urban Renewal Plan thorough the years the Plan was sub-divided into smaller components and renamed according to their locations (BDC Powerpoint, 2001). The Hyatt Regency Hotel, Harbor Court and the Renaissance Hotel are currently located in the Inner Harbor Urban Renewal Area, the Marriott Inner Harbor is located in the Market Center Urban Renewal Plan Area and the Hilton Baltimore is located in the Inner Harbor West Urban Renewal Area.

**Garage Construction**, the City has used General Obligation (GO) bonds, off street revenue bonds, or parking revenue bond funds to build garages as a component of larger development projects because the economics of garage financing which sometimes make the project not viable. Developers are seeking to make at least a minimum return on their investment and when the hurdle rates are unable to be achieved, several alternatives are sought. One option is to request that the municipality build the less profitable portion of the project, typically the garage. Garages are needed in urban development projects and are very expensive and not that profitable. The City has participated with the development of several garages as a



part of hotel development project. The Hyatt Regency Hotel Garage, the Marriott Inner Harbor Garage, and the Renaissance Hotel Garage were all built by the City (Kraus, 2010).

General Obligation Bonds are bonds secured by the full faith, credit and taxing power of an issuer, usually a municipality. General obligation bonds issued by local governments (such as the City of Baltimore) are typically secured by a pledge of the issuer's ad valorem taxing power (real estate and personal property taxes). If the jurisdiction is unable to pay principal and interest on the bonds (known as "debt service"), bondholders can file suit and seek to have the courts order the tax rate increased in an amount sufficient to pay the debt service. In Baltimore City, general obligation bonds are authorized by Section 7, Article XI of the Maryland Constitution and Section 33, Article II of the City Charter. The Maryland Constitution requires that the Mayor and City Council of Baltimore authorize the issuance of general obligation bonds by the adoption of an ordinance. Such ordinances generally provide the terms of payment of the bonds, date(s) of maturity (which may not be any longer than 40 years) and interest rate(s) (Kraus, 2010).

Off Street Parking bonds, in Baltimore's case, general obligation bonds were issued in the 1960s-1980s for "Off Street" parking facilities. This was before the City established the Parking Enterprise Fund. These bonds were, in effect, general obligation bonds (full faith and credit) issued for parking garages and surface parking lots. During that time the parking revenues were part of the general fund and commingled with tax revenues. In the late 1980s the City established a Parking Enterprise Fund – whereby separating out parking revenues from the general fund - placing them in the enterprise fund and dedicating the revenues to pay debt service

on parking revenue bonds. These bonds are not general obligations of the City, and therefore, are not secured by the full faith and credit and taxing power of the City. Revenue Bonds are issued pursuant to Section 50, Article II of the City Charter, which provides that revenue bonds may only be backed by the revenues generated from the property, facilities or developments whose financing is undertaken by the issuance of the revenue bonds. These bonds involve a greater degree of risk for bondholders whose only source of repayment would be the revenues general by the facilities or improvement, such as the parking enterprise fund. Bond holders are only secured by the revenues of the parking enterprise fund (Kraus, 2010).

The pledged revenues that are used to repay the bondholders consist of parking fee revenues which means all regular and recurring fees, charges or other revenue collected by and payable to the Issue for the parking of motor vehicles on or in off-street and on-street parking lots, area, garages or other similar facilities, including meter collections and permit fees, which may be pledged toward the payment of Revenue Obligations under the Enabling Legislation; excluding, however, from the definition thereof (i) amounts payable for operating and maintenance expense with respect to Non-Financed Facilities, (ii) amounts collected at and payable for or pledged to debt which is incurred to finance the cost of Non-Financed Facilities, and which debt is payable for or secured by revenues generated from In-Financed Facilities, (iii) the Special Parking Revenues, (iv) the Sales Proceeds Revenues, and (v) revenues from the sale or other disposition of land, buildings, fixtures and equipment used in the parking of motor vehicles ( OS, 1998).

**Infrastructure Improvements** is one of the incentives that the City of Baltimore uses to assist with new development projects. The Capital Improvement Program (CIP) administered by the Department of Planning, is the City's guide for making necessary public infrastructure improvements. The Baltimore City Charter requires the Planning Commission to prepare a six-year plan annually. Capital improvement is generally defined by City Board of Estimates (BOE) policy is any project or physical improvements over \$50,000; preliminary study or survey related to a permanent property or equipment required for that improvement (Planning Website, 2010)

The CIP encompasses the entire City because infrastructure deteriorates over time and has to be replaced with newer systems. Because the City has already have plans for infrastructure replacements they sometimes reprioritize where the improvements will go in order to help to spur economic development activity. Those infrastructure improvements may include new sidewalks, street resurfacing or reconstruction, new public utilities that may be needed for a project. The funds that are used for infrastructure improvement are general obligation bonds. Several agencies within city government such as the Department of Planning, Department of Transportation, Department of Public Works, Baltimore Housing, Baltimore Development Corporation and other agencies meet to decide which development projects are in need of infrastructure improvement funding and the timing of those projects. Once the agencies have a consensus of when the improvements will be needed the funds are allocated to those projects that will come on line first (Clark, 2010).

**Tax-exempt bond financing** is a more recent incentive that the City of Baltimore has used to assist in financing. Regarding hotel development, the City has only used this incentive for the Hilton Baltimore Hotel project. Tax exempt bonds are generally the least expensive form

of project financing and often require less equity to be contributed to a project than traditional sources of financing, if any. Investors in tax-exempt bonds will accept a lower rate of interest because the interest received is exempt from federal income tax (and usually the income tax of the state in which the bonds are issued) (Magan, Davis, Israel and Liever, 2001-2002).

Hotels have traditionally been owned by private entities, and in general, private entities cannot get the benefit of tax-exempt financing, except for a limited category of projects that have been specifically permitted by Congress. In 1986, Congress eliminated from the list of eligible tax-exempt projects the two major categories that had previously been used for hotel financings – hotels for airport and other port facilities and exempt small issue for commercial purposes (which could only be used for relatively small projects under \$10 million). The elimination of these project categories from the permitted list seemed to put an end to tax-exempt hotel financing (Magan, et al., 2001-2002).

However, due to the tightening of traditional financing source for hotel projects, it has become more difficult for private hotel developers (“Developers”) to finance hotel projects. As a result, those Developers willing to work with state and local governmental entities (“Local Agencies”) have re-examined the federal tax law and found that, by working together and recasting the ownership structure, it is possible to use tax-exempt financing for hotel projects. (Magan, et al., 2001-2002).

The City of Baltimore pursued tax-exempt financing of the Hilton Baltimore Hotel because, after many years of effort, there was not private developer that was willing to build a

750 room convention center hotel with the meeting space and room block agreement that the tourism industry in Baltimore needed to be competitive. The room block agreement provides a block of rooms for Visit Baltimore to sell to meeting planners for future years. Visit Baltimore does not have such an agreement with any other hotel in the City of Baltimore.

## The Hyatt Regency Hotel

The Mayor and City Council of Baltimore (the “Landlord”) entered into an agreement with CCIH Hotel Corporation (the “Tenant”) to build a 500 room Hyatt Regency Convention Center Hotel in accordance with certain final working drawings and specifications to be prepared in accordance with the terms and procedure set forth in the development agreement dated May 16, 1979; the Landlord agreed to build a 650 car parking gage on the garage site and a pedestrian access bridge over Light Street (Main Lease, 1979).

According to the Main Lease the Urban Renewal Plan set forth certain requirements for the development of the hotel that applied to the construction of the improvements on the land, as noted below:

- a. No habitable building area (except within the Garage) and no building area containing mechanical, electrical, or other equipment or property not easily or quickly removable, shall be permitted below elevation 10 (ten) feet unless aid area is waterproof and protected against hydrostatic pressure to elevation 10 (ten) feet.
- b. No structure shall be built above Elevation 415 feet
- c. The buildings erected on the Land shall not exceed the following maximum permitted coverage of the Land and the air spaced above the Land:
  - i. Up to Elevation 85 feet – 100%
  - ii. Above Elevation 85 – 35%

- d. No vehicular access onto the Land or into the buildings erected thereon shall be built or provided for except as shown on the working drawings and specifications approved by the Landlord.
- e. Tenant shall comply with the regulations issued by the Secretary of the United States Department of Housing and Urban Development set forth in 37 Federal Regulations 22732-3 and all applicable rules and orders issued thereunder which prohibit the use of on ad-based pain in residential structures undergoing federally assisted construction or rehabilitation and require the elimination of lead-based paint hazards (Main Lease, 1979).

As a part of the development the City acquired the site and leased it back to the Hyatt Corporation and made a \$12.2 Million investment into the project via a UDAG Loan for acquisition and the construction of the parking garage. The Hyatt Corporation repaid the UDAG loan in full in 1987. The Mayor and City Council of Baltimore continues to be the Landlord of the project and receives \$200,000 in base rent annually and two-thirds of annual net profit (the remaining one-third is kept by Hyatt). Every nine years, Hyatt is permitted to keep 100% of the net profit to refurbish the hotel (the last refurbishment occurred in 2007). The City owns the residual value of the improvements built by the Hyatt Corporation, that is, the City will owned 100% of the garage in 2025 and the hotel in 2035 (Van Sant, 2010).

## **Marriott Inner Harbor Hotel (formerly known as Howard Johnson's)**

Documents for this transaction were never located, although extensive research was done. Ms. Green from the Baltimore City Department Finance does remember the City financing the garage component of the project for the then Howard Johnson's hotel. She indicated that the City used revenue bonds to build the garage (Green, 2010). The Parking Authority of Baltimore City continues to manage the garage on behalf of the City.

The site was assembled as a part of the overall urban renewal of the downtown area (Green, 2010).



## **Renaissance Hotel and Garage**

In 1988 the Mayor and City Council (the “City”) entered into an Installment Sale and Operating Agreement (ISA) with the Baltimore Center Garage Limited Partnership (the “Company”). The Company constructed and equipped a 1,200 space Parking Facility in accordance with the Construction and Operating Agreement, the Construction Contract and the Plans and Specification (ISA, 1988). The Garage was built to serve the hotel, office tower and retail component of the project. The ISA agreement allowed the City to issue taxable revenue bonds for the construction of the garage and the Developer was obligated to pay the debt service from the revenues from the garage operation (Van Sant, 2010).

The purchase price of the garage was \$31,070,736 of which \$162,000.00 was used for the equipping and furnishing of the garage. The monthly installment payments were based on the annual debt service payment of the taxable fixed rate revenue bonds. The Company was to continue with the payment of the bonds until they were paid in full (Van Sant, 2010).

By Chapter 552 of the Laws of the State of Maryland of 1976, as ratified by the voters on November 2, 1976, Section 3 was added to Article XI-C of the Constitution of Maryland. Section 3 authorizes the City, by ordinance, to borrow money to finance the establishment, construction, erection, alteration, expansion, enlarging, improving, equipping, repairing maintaining, operating, controlling and regulating (generally the “Parking Development Activities”) owned or to be owned by the city. To evidence such borrowing, Section 3 authorizes the issuance of revenue bonds, notes, or other obligations (“revenue obligations”) to

be secured by a pledge of the revenues derived from the parking facilities. Section 3 also authorizes the City further to pledge to or for the payment of revenue obligations, revenues collected from parking taxes, parking fees or charges, parking fines, or other revenue derived from the parking of motor vehicles in the City (ISA, 1988).

## **InterContinental Hotel – Harbor Court**

In 1982 the Mayor and City Council entered into a Disposition and Development Agreement with David H. Murdock Development Company for the sale of the city owned land known as Area 20 located in the Inner Harbor Project I Urban Renewal Area, which was assembled by the City via urban renewal. The purchase price to be paid for Area 20 was in the amount of (a) \$1,650,000.00, plus (b) \$10,000.00 for each residential unit developed by Developer on Area 20. The Developer was required to develop not less than 165 residential units so the purchase price would in no event be less than \$3,000,000.00. In addition, beginning on the 30<sup>th</sup> day following closing, the Developer was to pay the City \$1,320,000.00, with interest at the City's borrowing rate (but not more than 13.5%), in twenty-four (24) equal monthly installments with the entire amount being due upon the completion of the Improvements to be developed on Area 20. The sum was to be secured by a \$1,320,000.00 letter of credit which was to be furnished to the City at the closing. The balance of the purchase price was to be paid in the following manner: \$5,000.00 on the sale of each of the first 1/3 of resident units to be developed on Area 20; \$10,000.00 on each sale of each of the second 1/3 of the resident units to be developed on Area 20; and \$15,000.00 upon the sale of each of the remain residential units to be developed on Area 20. (BOE, 1982).

Pursuant to the Agreement the Developer had to adhere to very restrictive development standards as outlined below, from an excerpt from the Disposition and Development Agreement:

- No building, fence (excepting any temporary fence used with respect to construction activities), sign, landscaping treatment, paving, wall, private roadway or other structure shall be commenced or erected on the Property, nor shall any addition to or change or alterations here in be made, until plans and specifications with respect thereto have been first submitted by the Developer, to and have been approved in writing by, the Department in accordance with the provisions of Article II of this Agreement, and no building, fence (except any temporary fence used with respect to construction activities), sign, landscaping treatment, paving, wall, private roadway or other structure shall be permitted or maintained on the Property unless it conforms to plans and specification which have been first approved in writing by the Department and any changes, which if material, have been first approved in writing by the Department (Agreement, 1982).
- The Developer shall also submit for the review and approval of the Department, either as part of the Design Development Plans or Construction Plans or separately, plans and elevations indicating size, design, illumination, location, material, color and method of illumination for all advertising, direction, or identification signs, and designs for any floodlighting, highlighting, spotlighting, backlighting, or other illumination, which will be visible from any public right-of-way, park, pedestrian access facility or boulevard.
- The Department shall have the right to refuse to approve any drawings, plans or specifications that are not a logical development of any plan previously approved if the same are not suitable or desirable, in its reasonable opinion, for aesthetic or functional reasons; and in so passing upon such drawings, plans and specifications, it shall have the right to take into consideration, but shall not be limited to, the suitability of the site planning; architectural design and layout; materials; building construction; landscape

design; access, streets; sidewalks, signs, lighting; the harmony thereof with the surroundings; and the effect of the building or other structure as planned, on the outlook from other portion of Inner Harbor Project I.

The City placed such restrictions on the development of the site because of its proximity to the Inner Harbor and the desire to control the type and quality of development that would occur in the area (Bose, 2010).

## **Pier 5 Hotel**

In 1988 the Mayor and City Council of Baltimore (the “City”) entered into a Land Disposition Agreement (LDA) under which the City agreed to enter into a land lease with the Borrower (“Pier Five Group”) to lease certain real property located in Baltimore City, Maryland to make certain improvements to the area adjacent to the property (the “City Improvements”), and under which the Borrower agreed to perform certain obligations relating to the development and construction of certain improvements on the Property (the “Improvements”) and to operate a hotel and restaurant on the Property. The City and the Borrower also entered into a Public Works Agreement related to the development of the Pier 5 Hotel and restaurant. Under the terms of the Land Lease, the Borrower was obligated to pay any real estate taxes imposed by the City or the State of Maryland on the Property and the Improvements and any personal property taxes imposed by the City or the State of Maryland on any personal property owned by the Borrower. As the Borrower did not pay the applicable taxes they were placed in default of the Land Lease by the City (Agreement, 1994).

The Borrower and the City also entered into a Multi-Party Agreement by which the City guaranteed the Bank Loan by the Borrower. The Borrower defaulted on the Bank Loan and the City agreed with the Borrower that they would surrender, assign, and transfer to the City, or if the City so directs, all of its right, title, and interest in and of the Land Disposition Agreement, the Land Lease, the Hotel Lease, the Restaurant Lease, and the leasehold estate created thereunder including, without limitation, any and all other right, title, and interest in the Property and Improvements, together with the easement and all rights of access thereto (the “Property

Rights”) by an assignment agreement dated January 1994. The Developer defaulted on the Land Lease Agreement and the City Loan and the City took back the property. A separate entity was created, Pier Five Development Corporation, Inc.(PFDC) a Maryland non-stock corporation to transfer all of the rights, title, and interest in the Property and Improvements to PFDC (Agreement, 1994).

H&S Properties (H&S) acquired the hotel in 1998 from the Bankruptcy Court at a cost of \$12 Million. H&S paid all cash for the Harbor Inn at Pier Five except for assuming the City mortgage loan which had an outstanding balance of \$1,784,000 at that time. To assume ownership, H&S brought all of the city obligations current (real property, personal property, hotel taxes plus the mortgage and lease payments) and paid the transfer taxes and recordation fees related to the transaction. At the end of 1998, H&S was able to put in its own management and sales personnel (Meyer Jabara Hotels) in control of the operation. With the replacement of the management the project began to show signs of progress. In 1999 H&S sought to refinance the project however, the acquisition and the structure of the land disposition agreement made refinancing problematic. The City agreed to restructure the terms of the agreement with the developer to make it easier for them to refinance the project (Van Sant, 2010).

The hotel is an ongoing project and is paying the City the required ground lease payments, real property taxes, real personal property taxes and hotel occupancy taxes. But for the City’s willingness to work with the developer the City would not be collecting these revenues because it would be a failed project and a burden to the City (Van Sant, 2010).

## **Baltimore Marriott Waterfront Hotel**

In 1996, the Baltimore Development Corporation on behalf of the City of Baltimore issued a Request for Proposal (RFP) for a convention center hotel and received three responses. BDC created an Advisory Panel to review the proposals that were received and analyzed by staff. The Advisory Panel made a recommendation to the BDC Board of Directors (Board) and the Board then made a recommendation to the Mayor for the convention center hotel to be built at the site located at 700 Aliceanna Street. H&S Properties Development was selected as the Developer and proposed to construct a 750 room hotel and a 500 space garage, located at Inner Harbor East, south of Fleet Street at President Street. In addition, the developer requested a PILOT for the hotel and the parking garage. The project was approved for a PILOT on the hotel and parking garage by the Planning Commission on March 5, 1998 and by Board of Estimates on June 10, 1998. However, on November 24, 1998, Judge Rombro of the Circuit Court for Baltimore City ruled that the ordinances which granted a PILOT to the developers of a hotel and garage project were invalid. Specifically, the Judge found that Ordinances 98-253 and 98-254, which were the enabling ordinances and provided for negotiated payments in lieu of taxes in connection with the lease of a hotel and garage facility located on land owned by the City, exceeded the authority granted to the Mayor and City Council by the Maryland General Assembly. The Court's decision was based primarily on the Plaintiff's (Boitnott) allegation that under the terms of the agreement with the developer, the City did not have the requisite ownership of the property as required by Section 6-102(e) of the Tax Property Article of the Annotated Code of Maryland (Van Sant, 2010).



Because of Judge Rombro's decision, the City proposed new PILOT legislation to the State Legislature that eliminated the ownership issue in the Rombro ruling. On May 27, 1999, Governor Glendening signed the new legislation (which became Section 7-504.3 of the Tax Article Code) permitting the City to provide exemption from City real property taxes for economic development projects located in Downtown urban renewal areas (Van Sant, 2010).

BDC staff analyzed the developer's cash flow proforma and the returns the developer to ensure that the developer was not being unduly enriched by the PILOT at the City's expense. BDC recommended the PILOT to the City because the hotel room rate and parking rates in Downtown Baltimore at that time did not support the private capital investment required. The Developer's projections assumed an average daily room rate of \$134.00 for a hotel that would be primarily targeting group and convention center business. The Developer indicated that without the PILOT the room rates would have to increase by \$31.00 (to \$165.00) to provide the same return on investment to the developer. At that time the Baltimore hotel market, especially its convention center business, could not support the required increase in hotel room rates.

In addition to the PILOT for the Developer the City of Baltimore agreed to contribute a \$5 Million grant and a \$5 Million loan for the hotel (funded from City's economic development bond funds). The City agreed to advance the \$5 Million grant and the \$5 Million loan to the developer in exchange for an absolute, unconditional and irrevocable personal guarantee of repayment by the developer principal (John Paterakis). The City agreed to release the developer from the personal guaranty upon the earlier of the closing of, and first advance, to the developer of the hotel financing which the City, at its sole discretion, has to determine to be acceptable and sufficient for completing the project and the issuance of the certificate of occupancy for the

hotel. If these conditions were not met, then the developer would have to personally repay the \$5 Million loan to the City. If the developer were to abandon the construction of the hotel by stopping work for more than sixty days, the City had the right to call for repayment of all outstanding City funds and to exercise its rights in collecting from the developer. The City was willing to make such an investment in the Marriott Waterfront because of the need for additional hotel rooms in the City to attract more conventions to the City (Van Sant, 2010).

The City believed that the hotel project would one day be profitable and wanted to share in the upside of the profits. The profit sharing is tied to the net cash flow of the hotel, based on all revenues generated by the hotel less expense deductions. The Hotel Owner would receive a preferred cumulative return as the first distribution from net cash flow, the City would receive a non-cumulative return as the second distribution from net cash flow and the remaining net cash flow is split 90% to the Hotel Owner, 10% to the City. The profit sharing agreement “runs with the land” for 35 years, ten years longer than the PILOT. The City would not share in any refinancing or sale proceeds of the transaction. To date, the City has collected profits from the hotel in years 2006 and 2007 totaling over \$1.8 million. The profit sharing began much sooner than anyone anticipated (Van Sant, 2010).

## **Marriott Residence Inn Hotel**

The developer, Donald J. Urgo & Associates, proposed to build a 175-room Marriott Residence Inn hotel at the southeast corner of Redwood and Light Streets in the Central Business District in Downtown Baltimore without any city assistance. The Developer had an existing relationship with Marriott and believed that the location was a suitable site for a hotel and intended to proceed with the project without any City assistance however he lost a portion of his financing following the September 11, 2001 attacks. The project was originally proposed in 1998 as a 125-room hotel; however the project was delayed for a variety of reasons, including a lengthy legal battle with the Preservation Maryland organization over the demolition of two buildings on the property. Although the buildings were located in the Central Business District they were not on the National Historic Register. Public hearings were held to demonstrate that the developer would proceed with the project and preserve a building and do a conversion of another building into a hotel. However, because of the footprint of the two buildings it became evident that the buildings were not suitable to be converted into a hotel project. The Developer then decided to demolish the buildings and build a new hotel (Clark, 2010).

The Developer's decision caused an injunction to be issued to stop the demolition of the two buildings until a resolution could be reached on the preservation of the two buildings. In November 2000, the developer agreed to an out-of-court settlement that involved restoring one the buildings and erecting a new structure on the site of the demolished structure. The settlement was conditioned upon the City providing a 10-year PILOT (to which the City agreed) and the Abell Foundation/Preservation Maryland providing a \$2 million bridge loan and some grant funds to offset the cost of redesigning the project. After failing to negotiate acceptable terms

with the Abell Foundation/Preservation Maryland on bridge financing, the developer demolished the two buildings and received City approval to construct a larger, 175-room hotel. In addition, the developer increased its equity position in the project in order for the project to move forward because there were not able to close on the bridge loan (BOE, 2002).

In November 2002, the Board of Estimates approved the Lease Agreement for the property known as 17 Light Street; the PILOT Agreement and the Development and Financing Agreement between the Mayor and City Council of Baltimore and Baltimore Hotel Associates I, LLC for the Marriott Residence Inn. The total development cost was estimated to be \$28 Million with a 24 month construction schedule. The PILOT term was for ten years with the City allowing a 95 percent reduction in the incremental taxes in years one through five; declining to 75 percent in year six; 70 percent in year seven; 65 percent in year eight; 50 percent in year nine; 40 percent in year ten; and full taxes would begin in year 11. The City is to share in 13 percent of the profits above a preferred return adjusted annually. The project utilized the “old” PILOT law because the Mayor and City Council retained ownership (the developer leases the property from the City) (Clark, 2010).

Although the property is now located in an Enterprise Zone, at the time of construction it was not within the boundaries of the Enterprise Zone and not eligible to receive the credit. If the project was located in the Enterprise Zone the City probably would not have recommended a PILOT for the project because the Enterprise credit is an entitlement and does not require City Council and Board of Estimates approval (Clark, 2010).

## **Hampton Inn and Suites**

In March 2001, the Mayor and City Council approved a Development and Financing Agreement between the City and Focus Development, LLC for the development of the former USG&G building located 131 E. Redwood Street into a Hampton Inn and Suites hotel. The project was to include 156 rooms, 2,500 square feet of retail space and 1,000 square feet of meeting space (BOE Memo, 2001). The Developer had proposed to include 26 S. Calvert Street into their development, but the City proposed acquisition of 26 S. Calvert Street as a part of the Central Business District Urban Renewal Plan for the construction of a parking garage, thus, the building became unavailable for incorporation in to the hotel project. The unavailability of the Calvert street building reduced the number of rooms and limited the possibility of underground parking for the hotel. The City was asked to provide \$335,360.00 of offset the cost of separating the Calvert Street building from 131 E. Redwood Street (the two structures were connected by an overhead breezeway across Mercer Street) and for other public improvements related to streetscape, utility vault reconstruction and surface parking (BOE Memo, 2001).

In addition to the public improvement funds, the City was asked to lease the bed of Mercer Street (closed under City Council Ordinance 369 dated July 6, 1989) for Focus to use as a surface lot to park approximately 24 hotel patron cars (BOE Memo, 2001). The City approved the \$335,360.00 grant with certain requirements, as outlined in the Development and Financing Agreement (noted below):

- The Developer shall use the proceeds of the City Participation exclusively for the payment of the following costs:
  - a) Removal of breezeway and ancillary building repairs;
  - b) Structural stabilization and reconstruction of vaults located in City right of way;
  - c) Repaving of Mercer Street between Grant and Calvert Streets for use by Developer or its assigns or successors as a surface parking area and a dumpster pad.
  - d) To pay a portion of the Streetscape Improvements

In the event the hotel was not constructed solely due to the default of the Developer in its obligations under the Agreement, but provided City has completed the Public Improvements, Developer shall reimburse City the costs incurred for sums expended through the City's Participation and for the Public Improvements prior to receipt by the City of notification from Developer of its inability to satisfy the terms and conditions of this Agreement (Agreement, 2001).

## **Hampton Inn @ Camden Yards Hotel**

In 1998, BDC received an unsolicited proposal from the developer, Duane Taylor and Company for the development of the city owned site at 221-223 South Greene Street. BDC issued a Request for Proposals in response to an unsolicited proposal for the City owned site. Two proposals were received; Duane Taylor and Company was the selected as the Developer with a proposal to develop 5,000 square feet of retail/restaurant space; 20 surface parking spaces and areas for outdoor seating along Portland Street. The developer pre-leased the space to La Tesso Tana and the Strand Cyber Café with a development cost of approximately \$625,280; however the development did not proceed due to financing issues. The Developer had a Land Lease Agreement with the City which allowed the site to be leased to Allfirst Bank for off-site parking from 1999 until 2004. The Land Lease Agreement had a clause in it that allowed the developer to exercise a right to purchase the site with proper written notice. In mid-2004, the Developer provided notification to the City and the Board of Estimates approved the sale of the site January 2005 (Robertson, 2010).

As a result, the Developer partnered with Next Reality and Skye Hospitality to build a Hampton Inn Hotel consisting of 126-rooms and 13 on-site valet parking spaces at Washington Boulevard between South Greene and Camden Streets. The Developer proposed to pay \$609,000 for the site which was below the appraised value of the property of \$1.2 Million. The City agreed to the purchase price because a well respected professional appraiser presented a valid case for the lesser value.

## **Hilton Baltimore**

In November 2002, the Baltimore Development Corporation (BDC) advertised a request for proposals (RFP) for the two city-owned blocks bounded by West Pratt Street, South Howard Street, West Camden Street and South Paca Street in response to an unsolicited proposal that was submitted by a development team of RLJ Development and Quadrangle Development. The RFP required that the proposals must be for a high quality mixed-use development that included a convention center oriented headquarters hotel of at least 750 rooms, on-site parking, other complementary uses and related amenities. The RFP also required that the development complement adjacent developments, benefit the Inner Harbor West Urban Renewal Area and enhance surrounding neighborhoods and the City as a whole. In February 2003, BDC received three proposals in response to the RFP from the development teams of TreyPort Ventures, LLC: a joint venture between Treyball Development, Inc. and Portman Holdings, L.P. for the development of an 800 room hotel and 45,500 square foot ballroom and meeting space; Camden Yards Gateway Hotel, LLC: a joint venture between the Baltimore-based Otis Warren & Company and Garfield Traub Development, LLC for the development of a 755 room Westin hotel, with 57,380 square foot ballroom and meeting space and an second option for a 759 room Westin hotel with 53, 608 square foot ballroom and meeting space; and RLJ/Quadrangle/CRS: a joint venture of RLJ Development, LLC and Quadrangle Development Corporation for the development of a 750 room Hilton hotel with 49,455 square foot of ballroom and meeting space. An Advisory Panel was selected and the review of the three proposals began (BDC Memo, 2003).



In September 2003, the Advisory Panel made a recommendation to the BDC Board of Directors that the City pursue a public financing/public ownership model as the only viable financing option for the development of a convention center headquarters hotel and to enter into an exclusive negotiation priority with the development team of RLJ Development LLC/Quadrangle Development Corporation. In October 2003, the BDC Board of Directors accepted the advisory panel recommendation and forwarded the recommendation to the Mayor of Baltimore. In November 2003, Mayor O'Malley accepted the recommendation of the BDC Board of Directors and directed the Department of Finance along with BDC to pursue the tax exempt financing necessary to build the convention center hotel (Van Sant, 2010).

In January 2004, the Department of Finance advertised for a financial advisor to assist with the transaction; the Board of Finance approved the selection of First Southwest Company and Jackson Securities as the financial advisor. In February 2004, BDC entered into an Exclusive Negotiating Privilege with the development team of RLJ Development/Quadrangle Development. The Finance Department advertised and selected Piper Jaffray as the senior underwriter, in March 2004. The Finance Department and BDC briefed the City Council on the development project and explained the necessary legislation that would be required in order for the development project to occur. There were several City Council members that were unsure that the City should be in the hotel business and some of them were never convinced otherwise. After several months of briefings and many hours of testimony the project finally obtained City Council approval in September 2005 necessary to pursue the tax-exempt financing for the project. The project required the approval of nine City Council Ordinances before the tax-exempt bonds could be issued. The City Council bills were for the following: City Council Bill

#05-0092 (Ordinance 05-127) to establish the development district; Convention Center Hotel Revenue Obligations City Council Bill #05-0093 (Ordinance 05-128) to authorize and provide for the issuance, sale and delivery by the Mayor and city council of Baltimore of its revenue bonds; Urban Renewal – Carroll Camden – Amendment 1 City Council Bill #05-0159 (Ordinance 05-131) to make a minor project boundary change; Urban Renewal – Inner Harbor West – Amendment 9 City Council Bill #05-0160 (Ordinance 05-132) to close certain right-of-way and air-rights; City Streets – Opening – Eutaw Street City Council Bill #05-0163 (Ordinance 05-133) for the purpose of condemning and opening Eutaw Street, extending from Pratt Street southerly to Camden Street (to create a private street); City Streets – Closing – Eutaw Street City Council Bill #05-0164 (Ordinance 05-134) for the purpose of condemning and closing Eutaw Street, extending from Pratt Street southerly to Camden Street; City Streets – Opening – Howard Street City Council Bill #05-0165 (Ordinance 05-135) for the purpose of condemning and opening Howard Street, extending from Pratt Street southerly to Camden Street; City Streets – Closing – Air Rights over Howard Street City Council Bill #05-0166 (Ordinance 05-136) for the purpose of condemning and closing air rights over Howard Street; and Supplementary Convention Center hotel Loan Fund Capital Appropriation – Department of Finance - \$305,000,000 CCB 05-0236 (Ordinance 05-158) to provide funds for the acquisition, construction, furnishing and equipping of the a convention center headquarters hotel. All nine bills were signed into law by Mayor O’Malley in October 2005 (Van Sant, 2010).

The Finance Department, BDC, the Financial Advisor, the Feasibility Consultant and the Underwriter continuously briefed the Board of Finance on the progress of the transaction until the transaction was offered in the market. The surrounding neighbors were also briefed so they

would know the construction schedule and how they would be affected by the construction.

Several union organizations were also briefed on the project. Some of the stakeholders that were briefed and endorsed the hotel project included the Downtown Partnership of Baltimore Board of Directors, the Greater Baltimore Committee, and the Maryland-Washington Minority Contractors' Association, Inc. (Van Sant, 2010).

While the City Council Bills were being considered by the Council the BDC issued an RFP for a qualified Design Builder for the construction of the Convention Center Headquarters Hotel. The goal of the RFP was to select a competent and qualified design builder who would provide a cost estimated based on schematic drawings. The RFP included very specific criteria for the selected design builder such as experience, reputation, financial capability/credit worthiness (to be able to provide the guaranties required for the bond financing), price, and acceptance of the City goals and the terms and conditions of the design build contract (including compliance with the City's prevailing wage and MBE/WBE ordinances). The RFP was advertised in March 2005 with a May 9, 2005 submission date (Van Sant, 2010). The RFP yielded responses by three qualified design builders: Faulkner USA, Hensel Phelps Construction Company and Whiting Turner Contracting Co. Each team was given the opportunity to review the design drawings and ask questions of the design team members in order to submit a competitive and accurate construction cost. The nature of the design build process is for a contractor to take over the basic design at a certain point and take over the Architect's contract and all of the design consultants to complete the project. Whether the drawings are at a schematic phase, design development or at 50% construction drawings, the design builder takes the drawings and delivers a turn-key project to the owner (Van Sant, 2010).

Hensel Phelps was the selected design builder after a very extensive review process by the Advisory Panel because of their experience and their willingness to work with local MBE/WBE and union companies. The Advisory Panel recommended Hensel Phelps to Mayor O'Malley in September 2005 and the Mayor accepted the recommendation. Hensel Phelps began preliminary work on the site in October 2005; although they were selected as the design builder the bonds had not been issued so they undertook enormous risk. If the City was not able to close on the bonds whatever money that was expended by the design builder would have been a loss to them and they would not have been able to come to the City and seek compensation because the contract was very clear that if the bonds did not close the City would not be at risk. Hensel Phelps provided a Guaranteed Maximum Price (GMP) for the project and also agreed to pay liquidated damages if the project was not completed on time and at budget (Van Sant, 2010).

In February 2006, the Mayor and City Council issued \$301 Million of tax-exempt bonds for the construction of the Hilton Baltimore Hotel. The City established the Baltimore Hotel Corporation (BHC) to own, develop and operate the Hilton Baltimore Hotel to shield the City from tort liability. The City of Baltimore is self insured, because of the possibility of lawsuits (i.e. slip and falls, etc.) the City did not want to have the liability of the hotel as a part of their insurance. BHC was created with a nine member board to build the Hilton Baltimore Hotel. BHC entered into a Loan Agreement with the City to receive the bond proceeds that were issued and were responsible for repaying the loan with revenues from the hotel. The financing included 36 months of capitalized debt service (thirty months during construction and six months after the hotel opened). The design builder was able to deliver the 757 room Hilton Baltimore Convention Center Hotel on time and at budget on August 22, 2008 (Van Sant, 2010).

## Benefits

The City's investments in the hotel industry has resulted in increased taxes and jobs for city residents, below note a chart detailing the taxes that they hotel projects have generated for 2005 (which was a great hotel year) and 2009 which was one of the worst recessions that the City of Baltimore has ever seen. Even in the worst economic period hotels still are able to generate a significant amount of taxes to the City. Please note the charts below that provides a snapshot of the taxes that the subject hotel generated in 2005 and 2009, respectively.

Hotel Name & Opening Year		
<b>Hyatt Hotel (1981)</b>	2005	2009
Real Property Taxes (1)	\$ 1,606,320	\$ 1,936,113
Business Personal Taxes (2)	\$ 103,519	\$ 224,538
Piggyback Taxes (3)	\$ 51,542	\$ 70,554
Telephone Taxes (4)	\$ 20,995	\$ 20,995
Hot Taxes (5)	\$ 1,166,637	\$ 945,583
	\$ 2,949,013	\$ 3,197,783
<b>Marriott Inner Harbor (1985)</b>	2005	2009
Real Property Taxes (1)	\$ 1,244,355	\$ 1,521,109
Business Personal Taxes (2)	\$ 62,051	\$ 113,601
Piggyback Taxes (3)	\$ 96,642	\$ 132,289
Telephone Taxes (4)	\$ 22,680	\$ 22,680
Hot Taxes (5)	\$ 1,260,256	\$ 1,021,464
	\$ 2,685,984	\$ 2,811,143
<b>Harbor Court Hotel (1986)</b>	2005	2009
Real Property Taxes (1)	\$ 566,996	\$ 907,293
Business Personal Taxes (2)	\$ 173,855	
Piggyback Taxes (3)	\$ 40,268	\$ 55,120
Telephone Taxes (4)	\$ 8,424	\$ 8,424
Hot Taxes (5)	\$ 468,095	\$ 379,401
	\$ 1,257,638	\$ 970,837

Hotel Name & Opening Year		
<b>Renaissance (1988)</b>	2005	2009
Real Property Taxes (1)	\$ 728,161	\$ 850,158
Business Personal Taxes (2)	\$ 11,485	\$ 13,554
Piggyback Taxes (3)	\$ 104,696	\$ 143,313
Telephone Taxes (4)	\$ 26,870	\$ 26,870
Hot Taxes (5)	\$ 1,493,103	\$ 1,210,191
	\$ 2,364,314	\$ 2,244,085
<b>Harrison's Inn @ Pier 5 (1989)</b>	2005	2009
Real Property Taxes (1)	\$ 115,395	\$ 184,974
Business Personal Taxes (2)	\$ 9,709	\$ 17,500
Piggyback Taxes (3)	\$ 9,664	\$ 13,229
Telephone Taxes (4)	\$ 2,851	\$ 2,851
Hot Taxes (5)	\$ 158,432	\$ 128,413
	\$ 296,052	\$ 346,967
<b>Marriott Waterfront (2001)</b>	2005	2009
Real Property Taxes (1)	\$ 1	\$ 1
Business Personal Taxes (2)	\$ 132,435	\$ 207,988
Piggyback Taxes (3)	\$ 152,372	\$ 195,788
Telephone Taxes (4)	\$ 32,486	\$ 32,486
Hot Taxes (5)	\$ 1,805,166	\$ 1,463,125
	\$ 2,122,460	\$ 1,899,387
<b>Marriott Residence Inn (2005)</b>	2005	2009
Real Property Taxes (1)	\$ 37,958	\$ 44,181
Business Personal Taxes (2)	\$ -	\$ -
Piggyback Taxes (3)	\$ 32,214	\$ 44,096
Telephone Taxes (4)	\$ 8,122	\$ 8,122
Hot Taxes (5)	\$ 451,292	\$ 365,781
	\$ 529,858	\$ 462,180

Hotel Name & Opening Year		
<b>Hampton Inn &amp; Suites (2005)</b>	2005	2009
Real Property Taxes (1)	\$ 50,170	\$ 65,140
Business Personal Taxes (2)	\$ 42,673	\$ 7,190
Piggyback Taxes (3)	\$ 8,054	\$ 11,024
Telephone Taxes (4)	\$ 5,054	\$ 5,054
Hot Taxes (5)	\$ 285,658	\$ 231,532
	\$ 391,609	\$ 319,940
<b>Hampton Inn - Camden Yards (2007)</b>	2005	2009
Real Property Taxes (1)		\$ 217,128
Business Personal Taxes (2)		\$ 42,897
Piggyback Taxes (3)		\$ 11,024
Telephone Taxes (4)		\$ 5,141
Hot Taxes (5)		\$ 227,640
	\$ -	\$ 503,830
<b>Hilton Baltimore (2008)</b>	2005	2009
Real Property Taxes (1)		\$ 4,500,000
Business Personal Taxes (2)		\$ 893,718
Piggyback Taxes (3)		\$ 150,331
Telephone Taxes (4)		\$ 32,702
Hot Taxes (5)		\$ 1,472,853
	\$ -	\$ 7,049,604

- (1) Real Property Taxes are actual numbers
- (2) Business Personal Property Taxes are actual numbers
- (3) Piggyback Taxes are estimated based on the living wage rates and at least 60% of the hotel employees being city residents
- (4) Telephone Taxes are estimated on the number of rooms for each hotel
- (5) Hot Taxes are based on Available Daily Rate of \$127.27 and \$124.91 respectively and occupancy of 68.9% and 56.9% respectively. The ADR and OCC was taken from Hotel Horizons, March – May 2010 Edition

Please note exhibit hotel comp sheets and benefit chart attached herein.

## **Bibliography**

Baltimore Development Corporation memo dated March 12, 2001. Hampton Inn and Suites, 131 East Redwood Street Development and Financing Agreement and Ground Lease

Baltimore Development Corporation memo dated October 29, 2002. Marriott Residence Inn Payment In Lieu of Taxes (PILOT) Agreement.

Baltimore Development Corporation (October 20, 2003) Request for Proposals – Convention Center Hotel Staff Evaluation (BDC Memo to Members of the Board of Directors)

Baltimore Development Corporation's website. Retrieved April 25, 2010.

<http://www.baltimoredevelopment.com/assistance/pilots.aspx>.

Bonnell, Barbara J. Former Director of Information of the Baltimore Development Corporation. Telephone interview, April 20, 2010.

Bose, Shubroto. Former Chief of Architecture of the Baltimore Development Corporation. Telephone interview, May 4, 2010.

Clark, Kimberly. Executive Vice President of the Baltimore Development Corporation Personal interview. March 17, 2010, April 5, 2010 and April 16, 2010.

Department of Housing Community Development Memo dated July 12, 1982. Development Area 20, Inner Harbor Project I David H. Murdock Development Company

Disposition and Development Agreement between David H. Murdock Development Company and The Mayor and City Council of Baltimore dated June 29, 1982.

Federal Register, vol. 43, no 6 (January 19, 1977), p. 1608.

[http://www.globalharbors.org/hyatt\\_hotel\\_public\\_private\\_partnership.html](http://www.globalharbors.org/hyatt_hotel_public_private_partnership.html)

Green, Louise. Department of Finance. Personal interview, April 28, 2010.

Hotel Horizons, March-May 2010 Edition (PKF Hospitality Research).

Housing and Community Development Act of 1977, sec. 119(a), 91 Stat.1125 (1977).

<http://www.baltimorecity.gov/Government/AgenciesDepartments/Planning/CapitalImprovementProjects.aspx>

Kraus, Steve. Director of Treasury for the Baltimore City Department of Finance. Personal interview. April 5, 2010.



Magan, J., Davis, R, Israel, P., & Liever, M. (2001-2002). Hotel Project Financing with Tax-Exempt Bonds.

Main Lease between Mayor and City Council of Baltimore and CCIH Hotel Corp., dated May 16, 1979.

Millspough, M. L., (April 2003), The Inner Harbor Story, Urban Land Institute, p.36-41.

Official Statement Dated March 5, 1998, Mayor and City Council of Baltimore Refunding Revenue Bonds (Baltimore City Parking System Facilities Series 1998A), p.D-5.

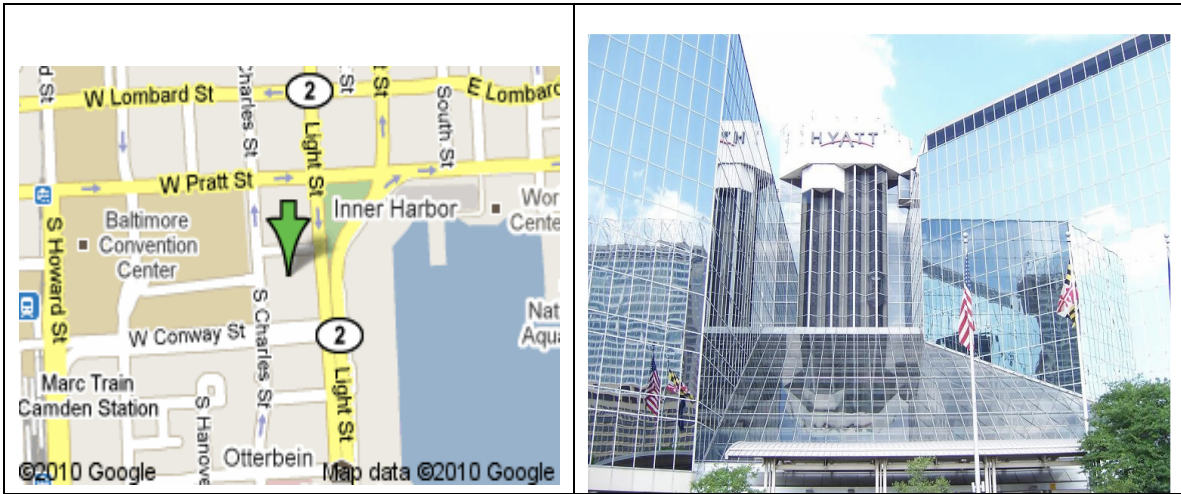
Robertson, Kathy. Director of the West Side Initiative. Personal interview. March 18, 2010, April 5, 2010 and April 15, 2010.

Van Sant, Irene. Director of Special Projects. Personal interview. April 5, 2010, April 6, 2010, April 15, 2010, April 16, 2010, April 24, 2010, April 25, 2010

Visit Baltimore Annual Report and Business Plan Fiscal Years 2009-2010. Retrieved April 25, 2010 <http://baltimore.org/about-bacva>



## Hotel Comparable Sheet



### Project Data

Project Name: Hyatt Regency Hotel (410-528-1234)  
Project Location: 300 Light Street, Baltimore, MD 21202  
Age of building: 1981  
Dates of renovations: minor renovation (light fixture replacement, furniture replacement, etc.)  
Style/Level of Service: Full Service  
Number of rooms: 488  
SF of building: 497,000  
Number of Floors: 15  
Number of elevators: 4  
Condition of building: Good  
Parking: connected to parking garage  
Owner: Mayor and City Council of Baltimore  
Management Company: Hyatt Corporation  
Visibility: Very Good  
Accessibility: Very Good  
Amenities: Outdoor pool, tennis court, 24 Hour Fitness Center, jogging track, basketball court, Bistro 300 Restaurant, complimentary newspaper in the lobby

### Parcel Information

Parcel ID/Tax ID: Ward 22, Section 01, Block 0694, Lot 001  
Zoning: B-5-2  
Yearly Tax amount: \$1,952,640 (discounted amount \$19,718.18)  
Tax credits/Historic tax credits: N/A  
Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



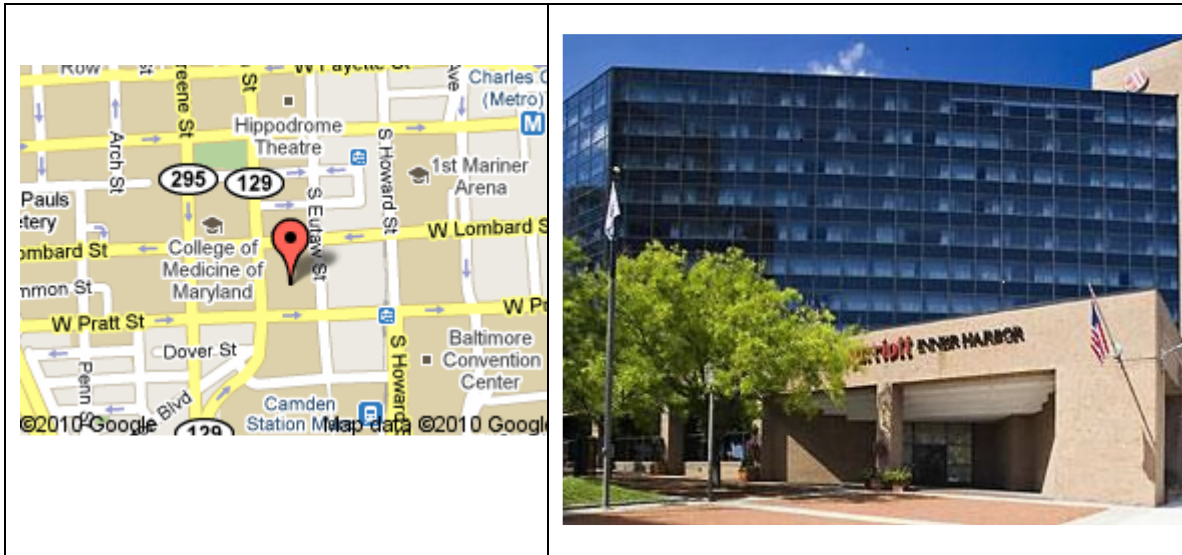
### Project Data

Project Name: Renaissance Baltimore Harborplace Hotel (410-547-1200)  
Project Location: 200 E. Pratt Street, Baltimore, MD 21202  
Age of building: 1981  
Dates of renovations: minor renovation (light fixture replacement, furniture replacement, etc.)  
Style/Level of Service: Full Service  
Number of rooms: 622  
SF of building: 260,061  
Number of Floors: 6  
Number of elevators: 2  
Condition of building: Good  
Parking: connected to parking garage  
Owner: Baltimore center Associates Limited Partnership  
Management Company: Marriott Corporation  
Visibility: Good  
Accessibility: Good  
Amenities: Fitness Center, Water Table Restaurant & Lounge (formerly Windows), coffee shop & bar, coffee/tea in room, shoe shine on site and business center

### Parcel Information

Parcel ID/Tax ID: Ward 04, Section 11, Block 0673, Lot 004  
Zoning: B-5-2  
Yearly Tax amount: \$850,158 (discounted amount \$8,501.58)  
Tax credits/Historic tax credits: N/A  
Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



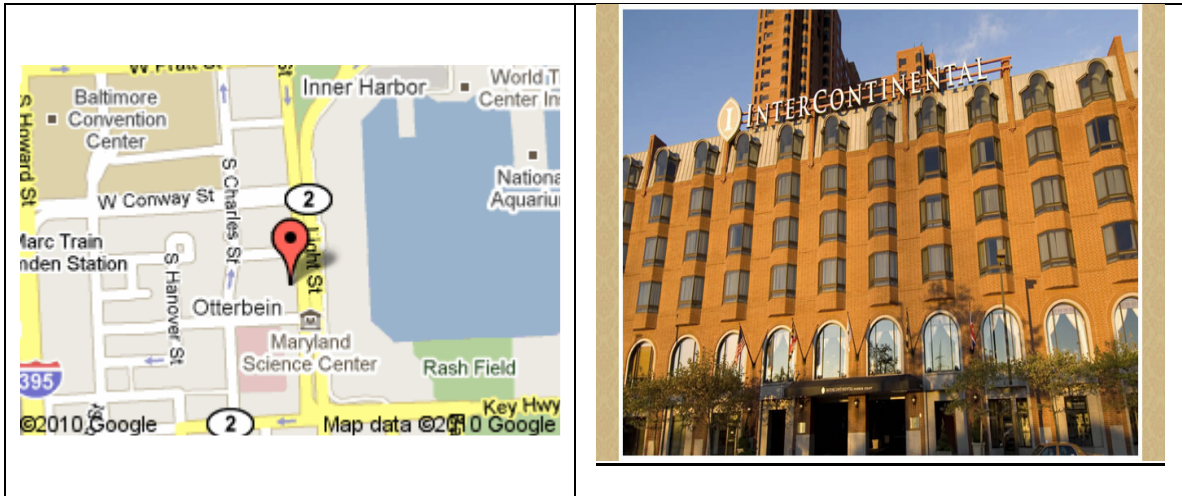
### Project Data

Project Name: Baltimore Marriott Inner Harbor at Camden Yards (410-962-0202)  
Project Location: 110 S. Eutaw Street, Baltimore, MD 21201  
Age of building: 1985  
Dates of renovations: minor renovation (light fixture replacement, furniture replacement, etc.)  
Style/Level of Service: Full Service  
Number of rooms: 525  
SF of building: 340,229  
Number of Floors: 10  
Number of elevators: 4  
Condition of building: Good  
Parking: connected to parking garage  
Owner: Pratt Street Hotel, LLC  
Management Company: Marriott Corporation  
Visibility: Good  
Accessibility: Good  
Amenities: Coffee/tea in room, business center, coffee shop

### Parcel Information

Parcel ID/Tax ID: Ward 04, Section 09, Block 0666, Lot 001  
Zoning: B-5-1  
Yearly Tax amount: \$1,521,109.04 (discount \$15,211.09)  
Tax credits/Historic tax credits: N/A  
Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



### Project Data

Project Name: Intercontinental Harbor Court Hotel (410-234-0550)

Project Location: 550 Light Street, Baltimore, MD 21201

Age of building: 1986

Dates of renovations: upgrades to furniture, fixtures and equipment

Style/Level of Service: Full Service

Number of rooms: 195

SF of building: 200,921

Number of Floors: 8

Number of elevators: 9

Condition of building: Good

Parking: connected to parking garage

Owner: Harbor Court Associates

Management Company: Intercontinental Management Company

Visibility: Good

Accessibility: Good

Amenities: Health & Fitness Center, spa, indoor pool, racquet ball recreation, sports court, business center and foreign currency exchange

### Parcel Information

Parcel ID/Tax ID: Ward 22 Section 01, Block 0876, Lot 004

Zoning: B-5-2

Yearly Tax amount: \$907,293 (\$4,536.47)

Tax credits/Historic tax credits: N/A

Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



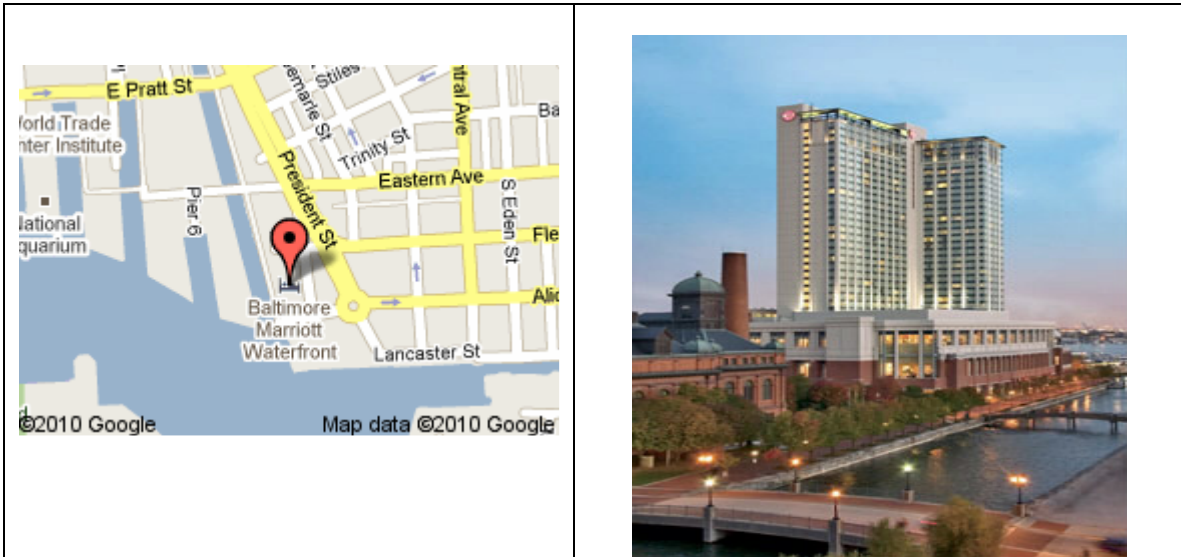
### Project Data

Project Name: Pier 5 Hotel (410-539-2000)  
Project Location: 711 Eastern Avenue, Baltimore, MD 21202  
Age of building: 1989  
Dates of renovations: minor renovation (light fixture replacement, furniture replacement, etc.)  
Style/Level of Service: Luxury  
Number of rooms: 66  
SF of building: 82,115  
Number of Floors: 2  
Number of elevators: 2  
Condition of building: Good  
Parking: off street parking  
Owner: Brad N. Erickson and Jennifer G Erickson  
Management Company: Myers Jabara  
Visibility: Very Good  
Accessibility: Good

### Parcel Information

Parcel ID/Tax ID: Ward 04, Section 11, Block 0890, Lot 017A  
Zoning: B-5-1  
Yearly Tax amount: \$84,974 (discount \$1,849.74)  
Tax credits/Historic tax credits: N/A  
Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



### Project Data

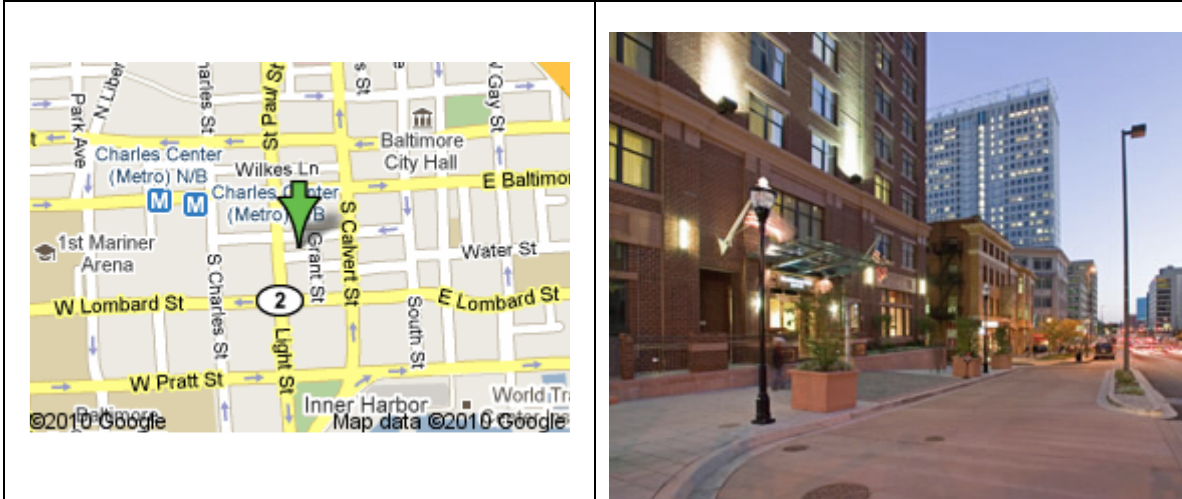
Project Name: Baltimore Marriott Waterfront Hotel (410-385-3000)  
Project Location: 700 Aliceanna Street, Baltimore, MD 21201  
Age of building: 2001  
Dates of renovations: Replacement of furniture, fixtures and equipment  
Style/Level of Service: Full Service  
Number of rooms: 752  
SF of building: 621,210  
Number of Floors: 31  
Number of elevators: 4  
Condition of building: Good  
Parking: connected to parking garage  
Owner: Harbor East Limited Partnership  
Management Company: Marriott Corporation  
Visibility: Great  
Accessibility: Good  
Amenities: Fitness Center, indoor pool, Business Center, coffee/tee in room, Grill 700, Kozmo's Lounge, Riganos Bakery Deli, foreign exchange,

### Parcel Information

Parcel ID/Tax ID: Ward 03, Section 06, Block 1797, Lot 001  
Zoning: TBD  
Yearly Tax amount: \$0 (property has 25 year PILOT)  
Tax credits/Historic tax credits: N/A  
Verification Source: Public Information and hotel front desk employee



## Hotel Comparable Sheet



### Project Data

Project Name: Marriott Residence Inn Hotel (410-962-1220)

Project Location: 17 Light Street, Baltimore, MD 21201

Age of building: 2005

Dates of renovations: newly constructed

Style/Level of Service: Limited Service

Number of rooms: 188

SF of building: 135,360

Number of Floors: 15

Number of elevators: 2

Condition of building: Very Good

Parking: off street parking

Owner: Baltimore Hotel Associates, LLC

Management Company: Uργο Hotel Management

Visibility: Good

Accessibility: Good

Amenities:

### Parcel Information

Parcel ID/Tax ID: Ward 04, Section 11, Block 0661, Lot 016

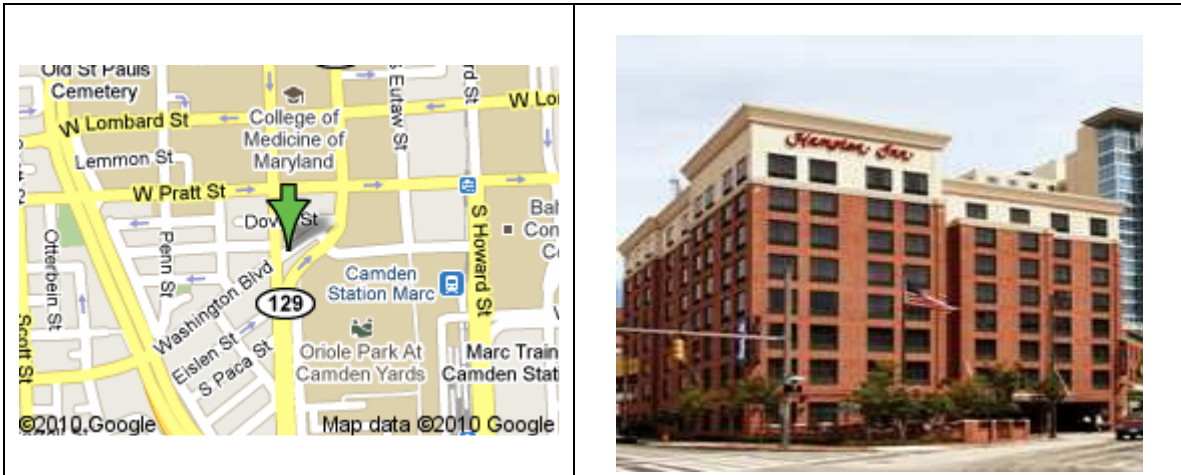
Zoning: B-4-2

Yearly Tax amount: \$0 (property has 10-year PILOT)

Tax credits/Historic tax credits: N/A

Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



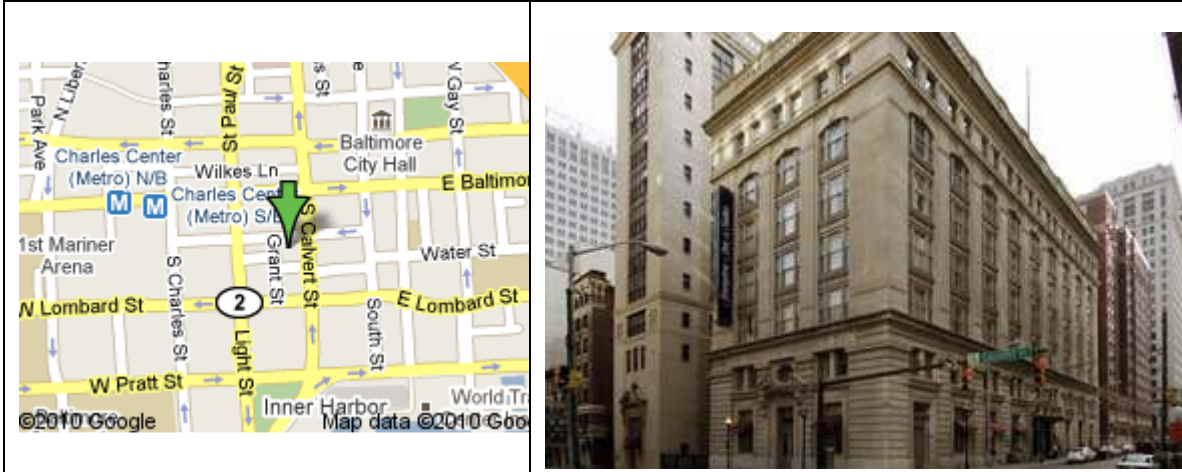
### Project Data

Project Name: Hampton Inn Baltimore – Downtown Convention Center (410-685-5000)  
Project Location: 550 Washington Blvd., Baltimore, MD 21201  
Age of building: 2007  
Dates of renovations: Newly Construction  
Style/Level of Service: Limited Service  
Number of rooms: 119  
SF of building: 71,030  
Number of Floors: 8  
Number of elevators: 2  
Condition of building: Very Good  
Parking: off street parking  
Owner: Camden Square, LLC  
Management Company: Hilton Hotels Corporation  
Visibility: Good  
Accessibility: Good  
Amenities: Business Center, Fitness Room, Indoor Pool and complimentary breakfast

### Parcel Information

Parcel ID/Tax ID: Ward 22, Section 30, Block 0677, Lot 011  
Zoning: B-4-1  
Yearly Tax amount: \$217,128 (discount \$2,171.28)  
Tax credits/Historic tax credits: N/A  
Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



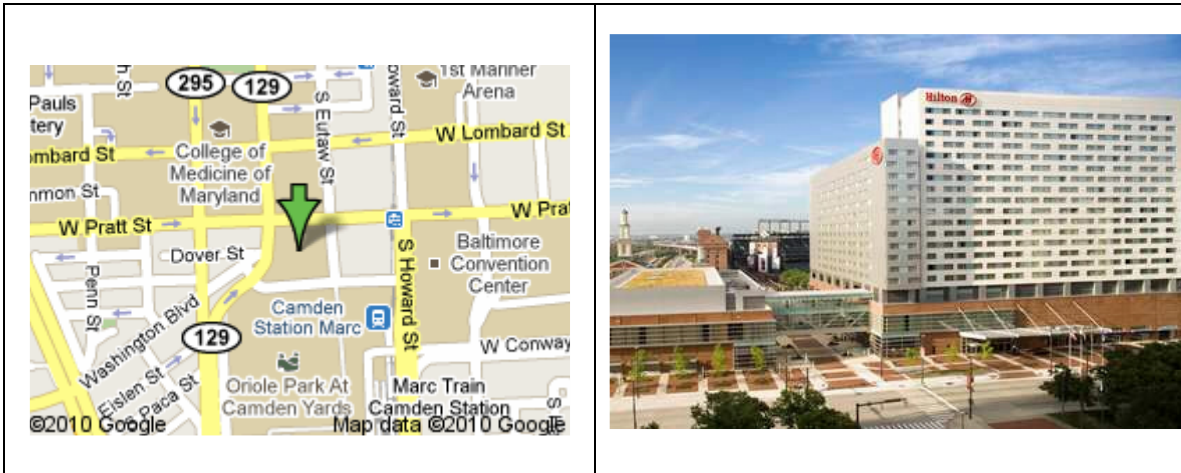
### Project Data

Project Name: Hampton Inn Inner Harbor (410-539-7888)  
Project Location: 131 E. Redwood Street, Baltimore, MD 21202  
Age of building: 1905, renovated in 2005  
Dates of renovations: Newly Renovated  
Style/Level of Service: Limited Service  
Number of rooms: 117  
SF of building: 75,208  
Number of Floors: 7  
Number of elevators: 2  
Condition of building: Good  
Parking: off street parking  
Owner: 131 East Redwood (Landlord), LLC  
Management Company: Alliance Hospitality  
Visibility: Good  
Accessibility: Good  
Amenities: continental breakfast

### Parcel Information

Parcel ID/Tax ID: Ward 04, Section 11, Block 0661, Lot 001  
Zoning: B-4-2  
Yearly Tax amount: \$65,140  
Tax credits/Historic tax credits: Enterprise Zone Credit  
Verification Source: Public Information and hotel front desk employee

## Hotel Comparable Sheet



### Project Data

Project Name: Hilton Baltimore Hotel (443-573-8700)  
Project Location: 401 W. Pratt Street, Baltimore, MD 21201  
Age of building: 2008  
Dates of renovations: Newly Construction  
Style/Level of Service: Full Service  
Number of rooms: 757  
SF of building: 732,231  
Number of Floors: 20  
Number of elevators: 22  
Condition of building: Very Good  
Parking: connected to parking garage  
Owner: Baltimore Hotel Corporation  
Management Company: Hilton Hotels Corporation  
Visibility: Very Good  
Accessibility: Very Good  
Amenities: Fitness Center, 24 Hour Business Center, Diamond Tavern Restaurant, Pets Allowed (additional fee applies)

### Parcel Information

Parcel ID/Tax ID: Ward 22, Section 03, Block 0678, Lot 001  
Zoning: B-5-1  
Yearly Tax amount: \$3,681,442 (discount \$36,814.42)  
Tax credits/Historic tax credits: N/A  
Verification Source: Public Information and hotel front desk employee