

Martin O'Malley  
Governor

Anthony G. Brown  
Lt. Governor



Alvin C. Collins  
Secretary

MARYLAND DEPARTMENT OF GENERAL SERVICES  
OFFICE OF THE SECRETARY

December 29, 2010

The Honorable Edward J. Kasemeyer  
Chairman  
Senate Budget and Taxation Committee  
3 West Miller Senate Office Building  
Annapolis MD. 21401-1991

The Honorable Norman Conway  
Chairman  
House Appropriations Committee  
121 House Office Building  
Annapolis MD. 21401-1991

Dear Chairman:

The Department of General Services (DGS) is requesting your approval for a twenty one (21) day extension on the submission of the January 1, 2011 status report concerning each existing Public-Private-Partnership in which the reporting agency is involved. Also, each Public-Private-Partnership under consideration at the time by the reporting agency has not been reviewed or approved previously by the General Assembly. In accordance with 2-1246 of the State Government Article, 10A-101 (d)(3) also 10A-101(d) (2)-SB979/Ch.640,2010 HB-1370/Ch.641,2010. This extension is needed to allow final review and input from other Inter-government agencies.

Thank You for your consideration regarding this request.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alvin C. Collins'.

Alvin C. Collins  
Secretary

cc: Mr. Michael Gaines, Assistant Secretary, Real Estate  
Maryland Department of General Services

MSAR #8484 & # 8483



The Honorable Edward J. Kasemeyer  
The Honorable Norman Conway  
December 29, 2010  
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bcc. Ms. Sarah Albert, Library Associate, Mandated Reports, Library & Information Services, DLS's ( 5 copies)

(MSAR #8484 &# 8483)

Ms. Stacy Mayer Governor's Legislative Affairs Office

Mrs. Joan Cadden Legislative Liaison, Department of General Services

Ms. Nicollette Young, Budget Analyst, Dept. of Budget and Management

Mr. David Smulski, Committee Staff, Senate Budget and Taxation Committee

Mr. Joshua A. Watters, Committee Staff, House Appropriations Committee

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MARYLAND DEPARTMENT OF GENERAL SERVICES  
OFFICE OF THE SECRETARY

January 14, 2011

The Honorable Edward J. Kasemeyer  
Chairman  
Senate Budget and Taxation Committee  
3 West Miller Senate Office Building  
Annapolis MD 21401-1991

The Honorable Norman Conway  
Chairman  
House Appropriations Committee  
121 House Office Building  
Annapolis MD 21401-1991

Dear Chairman:

Please find enclosed for your consideration, as required by State Finance and Procurement Article § 10A-101(d)(2) and (3), the inaugural annual report concerning Public Private Partnerships that the Maryland Department of Transportation is involved. The language directs:

*"(d) (2) By January 1 of each year, each reporting agency shall submit to the budget committees, in accordance with § 2-1246 of the State Government Article, a report concerning each public-private partnership under consideration at that time by the reporting agency that has not been reviewed or approved previously by the General Assembly.*

*(3) By January 1 of each year, each reporting agency shall submit to the budget committees, in accordance with § 2-1246 of the State Government Article, a status report concerning each existing public-private partnership in which the reporting agency is involved."*

If you have additional questions or concerns, you may contact me at 410.767.4960 or Michael A. Gaines, Assistant Secretary, Department of General Services, Office of Real Estate, 410.767.4330 or via e-mail at [michael.gaines@dgs.state.md.us](mailto:michael.gaines@dgs.state.md.us).

Sincerely,

Alvin C. Collins  
Secretary

Attachment

cc: Budget Sub-Committee Chairmen, The Honorable James E. DeGrange, Sr. and the Honorable Galen Clagett

301 West Preston Street  
Baltimore, Maryland 21201-2301  
(410) 767-4960  
FAX (410) 333-5480

Mr. Michael A. Gaines, Assistant Secretary, DGS, Office of Real Estate

Toll Free 1-800-449-4347

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TTY users 1-800-735-2258



The Honorable Edward J. Kasemeyer  
The Honorable Norman Conway  
Page Two

bcc: Ms. Sarah Albert, Library Associate, Mandated State Agency Reports, Library  
& Information Services Division, Department of Legislative Services (5 copies)  
(MSAR #8483 & #8484)  
Ms. Stacy Mayer, Deputy Legislative Officer, Governor's Legislative Office  
Ms. Joan Cadden, State Legislative Office, Department of General Services  
Ms. Nicolette Young, Budget Analyst, Department of Budget and Management  
Mr. David Smulski, Committee Staff, Senate Budget and Taxation Committee  
Mr. Joshua A. Watters, Committee Staff, House Appropriations Committee

**Annual Report to the  
Maryland General Assembly**

**regarding**

**Public-Private Partnerships**

**(SB 979, HB 1370, Chapters 640 and 641, Acts of 2010;  
State Finance and Procurement Article § 10A-101(d)(2) and (3))**

**The Department of General Services**

**January, 2011**

## Introduction

The Department of General Services (DGS) hereby submits this *Annual Report to the Maryland General Assembly regarding Public-Private Partnerships* pursuant to Senate Bill 979/ House Bill 1370, Chapters 640 and 641, Acts of 2010 (State Finance and Procurement Article § 10A-101(d)(2) and (3)). This report is designed to ensure that the budget committees receive sufficient and timely information regarding the status of each public-private partnership in which DGS is either involved or considering as required by the following statutory language from State Finance and Procurement Article § 10A-101(d)(2) and (3):

*"(d) (2) By January 1 of each year, each reporting agency shall submit to the budget committees, in accordance with § 2-1246 of the State Government Article, a report concerning each public-private partnership under consideration at that time by the reporting agency that has not been reviewed or approved previously by the General Assembly.*

*(3) By January 1 of each year, each reporting agency shall submit to the budget committees, in accordance with § 2-1246 of the State Government Article, a status report concerning each existing public-private partnership in which the reporting agency is involved."*

### **I. The Scope of the Report**

#### **A. Definition of Public-Private Partnership**

The scope of this report includes status reports on DGS's existing or contemplated projects that meet the following definition of public-private partnership (P3) provided in State Finance and Procurement Article § 10A-101(d)(2) and (3):

*"A sale or lease agreement between a unit of State government and a private entity under which:*

- 1. The private entity assumes control of the operation and maintenance of an existing State facility; or*
- 2. The private entity constructs, reconstructs, finances, or operates a State facility or a facility for State use and will collect fees, charges, rents or tolls for the use of the facility."*

DGS is involved in two existing P3s that meet this definition and at the time of this report has no other P3's which it is exploring.

#### **B. DGS Existing P3s:**

- 1. State of Maryland DHMH Public Health Lab:** This project meets the statutory definition of a P3 because the responsibility for the development and

construction of a facility which the Public Health Lab will use is being performed by a quasi-government agency contracting with a private fee development company.

2. State Center Transit Oriented Development (TOD) Project: The State Center TOD meets the statutory definition of a P3 because a private entity is redeveloping an existing State office complex.

## **II. Project Status**

### **A. Public Health Lab**

#### **Project Summary**

The FY 2008 Joint Chairman's Report requested that the Departments of Health and Mental Hygiene (DHMH), General Services (DGS) and Budget and Management (DBM) submit a report to the budget committees on "the Administration's plan for constructing the new Public Health Laboratory". Further, the committees requested that the report include "details regarding preliminary cost estimates for all aspects of the project that will impact either the capital or operating budgets". In addition, the report shall provide "a detailed timeline of the project beginning with the decision process concerning how to finance the project through completion of the project."

Construct a new estimated 220,000 gross-square-foot Public Health Laboratory facility for the Department of Health and Mental Hygiene. The new facility will replace the existing public health laboratory and include space for six (6) laboratory divisions, support services, and administrative functions. The existing facility has serious problems and potential dangers, including: insufficient physical space for new laboratory functions, instruments, and new testing protocols; an obsolescent physical structure whose outmoded design compromises important scientific use of the laboratories; a deteriorated building infrastructure that results in poor environmental conditions and high risk of operations shut-downs; and a facility design and location which pose security risks and potential health risks to occupants of the laboratory tower and the surrounding community.

DGS, on behalf of DHMH, seeks to procure a highly technical, functionally specific, fully equipped Public Health Laboratory with ancillary office space and an All Hazards Receipt Facility to replace DHMH's obsolete premises presently located at 201 W. Preston Street in Baltimore City. To that end, DGS Office of Real Estate seeks a Maryland Economic Development Corporation (MEDCO)-funded, and a privately developed building that would be leased by the State and professionally managed by a commercial real estate management company for the term of the lease. The technical and

mission critical function of the building requires a development partner with significant experience in building and operating public health laboratory facilities. With Board of Public Works (BPW) approval, the State will enter into a Letter Of Intent with MEDCO to procure tax-exempt financing for the project to minimize occupancy cost to the State.

The Site of the new Lab will be within the Science and Technology Park at Johns Hopkins, being developed by Forest City – New East Baltimore Partnership. The parcel selected is approximately one acre and the building will be six levels including a basement with a gross area of approximately 220,000 gross square feet.

#### Financing and Current Status:

In order to move the project forward on an expedient schedule, certain predevelopment activities must commence immediately. The DHMH has received \$6.45 million to begin those pre-development and design activities. MEDCO, on behalf of DHMH, completed a competitive process for the procurement of those predevelopment and design activities following the approval of the BPW of the Interagency Agreement between DHMH, DGS and MEDCO.

Design is currently under way and expected to be completed in the late Winter – early Spring of 2011 with construction beginning in the Spring of 2011.

It is contemplated that a future BPW review and approval of a DHMH occupancy lease that would be used by MEDCO to finance the project with Lease Revenue Bonds, will occur.

### **State Center TOD**

#### State Center Project Summary

The Maryland Department of General Services (DGS) owns the 28-acre parcel that comprises the State Center complex and serves as the lead State agency for the project in partnership with Maryland Department of Transportation (MDOT). The site includes the State Center Baltimore Metro station and is adjacent to the Cultural Center Light Rail station. In September 2005, DGS issued a Request for Qualifications seeking a project developer. In March 2006, the State selected a development team that included Struever Brothers, Eccles and Rouse, Doracon Development, and McCormack Barron Salazar to pursue the project pursuant to a Memorandum of Understanding (MOU) that granted the developers an exclusive negotiating privilege (ENP). The State and development team subsequently engaged in an extensive community engagement process that included more than 60 community meetings and attracted more than 600 participants. In December 2007, the BPW approved an Interim Development Agreement (IDA) among DGS, MDOT and the development team that extended the ENP and that laid out a road map for



reaching a final Master Development Agreement (MDA). On June 3, 2009, the BPW approved the MDA, which calls for the phased development of a \$1.5 billion mixed-use (office space, residential and retail), mixed-income project to be built on the site.

The project team reports to the State Center Executive Committee which serves as an advisory board for the project. The State Center Executive Committee initially comprised the Maryland Secretaries of General Services, Transportation, Business and Economic Development, Planning, and Housing and Community Development. In July 2009, the Executive Committee was expanded to include Maryland Senators Verna Jones and James E. DeGrange, Sr., and Maryland Delegates Talmadge Branch and Galen Clagett. In addition, the Maryland Stadium Authority has attended Executive Committee meetings since July 2009. The Stadium Authority's role, as the state's representative with respect to construction oversight, will likely be defined and formalized during early 2011.

The project entails a ten-year, multiple phase development program with ground-breaking scheduled during calendar year 2011 and the first phase completed in 2013. The site currently contains five State office buildings containing approximately 950,000 square feet of State office space. The new State Center TOD, in addition to adding private office space, residential, and retail components to the site, would replace the existing State office space with new State office space that represents, at a minimum, the same square footage that currently exists.

As permitted in the IDA, the development team restructured itself in May 2009, as approved by the State. The development team added PS Partners (a joint venture of Linden Associates and Ekistics Capital LLC). Struever Brothers Eccles and Rouse assigned its equity interest in the project to PS Partners, but will continue to participate in a consulting capacity. The development team added minority equity partners during 2010 and reached terms with the four minority firms as described in greater detail below.

The minority partners on the development team include: National Development Company (Adrian Washington), State Center Baltimore Developers, LLC (Kevin Johnson, Joseph Haskins, Eddie Brown, Ken Banks), Midtown Convergence (CL McCoy, Omari Patterson), and TAC Companies LLC (Ron Adolph). After extensive negotiations, the current members of State Center, LLC (PS Partners, McCormack Barron and Salazar (MBS)), and the minority partners have negotiated the following proposed ownership and rights structure for the project:

- State Center, LLC: the State Center, LLC entity will be the master development entity for the overall project. It is 33% owned by PS Partners which will serve as managing member, 33% owned by MBS, and 33% owned by Neighborhood Development Company. However, State Center, LLC is a "horizontal" project entity that does not develop any components of the project. Instead, separate development entities will be established to develop and own the office/commercial, the for-sale housing, and the rental housing components for each phase of the project. These "vertical" development entities will generate the

returns to the developers. More specifically, the agreement calls for the following:

- Office and Retail Development Rights: PS Partners generally retains the right to develop the office and retail components for the project. However, PS Partners and the proposed minority partners have negotiated the following agreement for the ownership of “vertical” development entities that develop the office and retail components:
  - *Phase One of the Project* -- The office and retail development entity is owned as follows: 50% PS Partners; 20% State Center Baltimore Developers (Kevin Johnson, Joe Haskins, and Eddie Brown); 10% Midtown Convergence (C.L. McCoy and Omari Patterson); 10% TAC (Ron Adolph); 10% Neighborhood Development Company (Adrian Washington).
- For-Sale Housing: National Development Company (NDC) generally retains the right to develop the “for sale” housing for the project. However, the minority partners have agreed to the following ownership structure for the for-sale housing development entity for all phases of the project up to 300 units: 75% NDC; 12.5% State Center Baltimore Development; 12.5% Mid-Town Conversions. If the development includes more than 300 for-sale housing units than PS Partners has the right to participate in additional units.
- Rental Housing: MBS retains all rights to develop the rental housing for all phases of the project.

#### Potential State Center Agreement Framework

The MDA calls for a phased approach to the development. For each phase, the State will ground lease the phase parcel to the developer and will have the option to lease back office space. The BPW must approve the ground leases for any phase where the State leases back office space. In Phase I, the BPW approved the construction of a 928-space State garage, two ground leases and 490,000 square feet of office leases on July 28, 2010. In future Phases if the State decides not to lease office space during a particular phase, the developer may proceed with construction on a vacant project parcel pursuant to TOD density guidelines. Alternatively, the State can terminate the developer’s contract in exchange for reimbursement of the developer’s costs from December 2007 forward. Therefore, the MDA gives the State the flexibility either to lease space in new buildings owned by the developer, to remain in its current or refurbished buildings and allow the developer to build the private portion of the TOD around it, or to cancel the agreement upon payment of a termination fee.

The MDA also includes a series of protections for the State. These include, among other things, a required development timeline, the ability to replace any member of the

development team who becomes insolvent or cannot obtain financing for the project, and the ability to terminate the agreement for a termination fee equal to the developer's costs in the event the State does not want to proceed with the project or with the developer.

#### Potential Action in Calendar Year 2011

The Phase One development program includes approximately 515,000 square feet of office space serving the Maryland Department of Health and Mental Hygiene, Maryland Transit Administration (MTA) and the Maryland Department of Planning (MDP); approximately 15,000 square feet of private office space; 60,000 square feet of retail space; and 100-130 units of mixed income rental housing. MTA and MDP will share a headquarters building to be constructed near the intersection of Howard Street and Preston Street. The DHMH building and State garage will be constructed on a surface parking lot at Martin Luther King Boulevard and Eutaw Street. The primary costs to the State are: (1) standard predevelopment costs; (2) State office lease rents and costs; and (3) the cost of constructing and financing a 928-space shared garage. The State will receive revenues in the form of ground rents and also in the form of parking fees from non-State users of the shared garage. The ground lease has been structured to provide the State with annual base rent equivalent to the net present value of the land and 7% of net cash flow from the project after the debt is retired. In addition, the State is working with Baltimore City to seek approval of a "Payment in Lieu of Taxes" (PILOT) of \$2.50/square foot on the State leased space to effectively cap this cost for State agencies.

Construction of the garage and the MTA/MDP building should begin during FY 2011; however, a recent lawsuit filed involving the project could impact the project timeline.