



Peter Franchot
Comptroller

July 15, 2011

The Honorable Alvin C. Collins
Secretary
Maryland Department of General Services
301 West Preston Street, Room 1401
Baltimore, MD 21201

The Honorable Beverley K. Swaim-Staley
Secretary
Maryland Department of Transportation
7201 Corporate Center Drive
P.O. Box 548
Hanover, MD 21076

Dear Secretaries Collins and Swaim-Staley:

For the past four years, your agencies have worked in tandem on an ambitious effort to redevelop the State Center complex in Baltimore City. I have watched the progression of the State Center project since June 2007, when the initial Memorandum of Understanding between the State of Maryland and the original development team was presented to the Board of Public Works for approval.

Since then, the amount of time and effort that your agencies have invested in the success of the State Center project has been truly impressive – a reflection of the uniqueness of the proposed arrangement, its order of magnitude, and the extraordinary amount of taxpayer dollars that would be committed to this venture. I would like to sincerely commend each of you for the spirit of responsiveness and collaboration displayed by your respective agencies over the course of this endeavor.

That said, I must respectfully inform you that I cannot and will not support further efforts to complete this project as currently proposed. I have developed a unique perspective on State Center over the past four years, during which my Board colleagues and I have been asked to vote on more than a dozen agenda items pertaining to this project.

As you know, I have voted at times to allow the project to progress to its next phase, as when I supported the initial MOU in 2007, as well as the State's Master Development Agreement with the revised project team in 2009. There have also been times when I have cast the sole dissenting vote on the Board of Public Works, as when I opposed the recommendation last December to incur \$33 million in taxpayer debt to construct a parking garage on the State Center site.

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Over the life of this project, though, I have voiced concern about the pragmatism of undertaking a commercial real estate venture of this magnitude in the midst of the worst economic climate since the Great Depression. I have questioned the efficacy of a project that has been billed as a model public-private partnership, but which could not survive in the absence of Maryland's state government as the largest occupant, by far, of leased office space. Finally, I have expressed my reluctance to place the taxpayers of Maryland in greater debt to construct facilities that the private sector routinely builds and manages at a considerable profit.

In short, I have shared your desire, and that of Governor O'Malley, to bring good-paying and family-supporting jobs to Baltimore City. I wholeheartedly embrace the effort to reinvest in neighborhoods that have been overlooked for too long, and I applaud your obvious commitment to the principles of smart growth through transit-oriented development. However, having examined both the acknowledged and potential future costs of this proposal, and having done so within the context of the severe fiscal challenges that continue to confront our state, I believe that the State Center project simply represents the wrong approach to those goals. Moreover, I believe that proceeding with this project would pose undue risks to the State of Maryland and its taxpayers at a highly inopportune time.

It is difficult, for example, to justify the willingness of State agencies to rent space at above-market rates at a time when Maryland's structural budget deficit continues to exceed one billion dollars. I believe that taxpayers who have been forced to make sacrifices to survive the economic downturn – and are now hearing speculation from Annapolis about further rounds of tax increases in the coming months – will justifiably question our decision to pay premium rates in a bargain-rich market where high vacancy levels will, unfortunately, be the norm for the foreseeable future. This decision is incompatible with the State's assurances that it has, indeed, done everything possible to contain spending and operate more efficiently before considering new sources of revenue.

In fact, one could argue that current and anticipated future conditions in the commercial real estate market justify a reexamination of the State's decision to enter into a long-term lease to start with. In the midst of perhaps the greatest buyer's market in recent memory, the State Center plan requires the State to enter into a 20-year lease, after which, as Treasurer Kopp pointed out in a 2010 letter to legislative leaders, *"the State will have essentially paid for about 89 percent of the developer's cost of the State's share of the building. But the State will have no equity in the buildings, nor any apparent reduction in rents beginning in year 21."* In other words, the State of Maryland would be a long-term renter at a time when all of the economic indicators point in favor of buying property at deep discounts.

Of arguably greater concern is the effect that this project could have on Maryland's debt load and, ultimately, our standing in the financial markets and our hard-earned reputation for sound fiscal stewardship. As you know, the State is fast approaching our self-imposed debt ceiling, as

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defined by the ratio of tax-supported debt service to revenues, and is scheduled to actually hit that ceiling in 2017 if not sooner.

Given that backdrop, I must reiterate that it is imprudent to add the cost of a new parking garage to our list of debt obligations. Furthermore, it has been suggested that the long-term leases themselves have the characteristics of a capital obligation, and in fact there is reason to believe that the Governmental Accounting Standards Board (GASB) will move in the near future to formally define such arrangements as capital leases. If that occurs, and the State is required to count the lease as a capital debt obligation, that would drive our future debt load well beyond our existing standards of affordability.

At a time when households throughout Maryland have learned the consequences of excessive borrowing and our entire nation is becoming painfully aware of the long-term costs of excessive and mounting government debt, I simply do not believe that we can risk the possibility of "maxing out the State's credit card." Rather than continue to flirt with that possibility, I believe that we must harness our collective energy and work innovatively to reduce our State's debt load, thereby ensuring that we will have the means to invest sensibly in superior schools, better roads, quality health care and other truly essential priorities.

In conclusion, I believe that in the best of times, the proposed redevelopment of State Center would be a calculated risk with a possibility for longer-term, speculative benefits. A sagging economy, severe budget challenges and mounting state debt serve as reminders that these are not the best of times. As both of you know so well, those of us who serve as fiscal stewards of the state cannot establish priorities solely on the basis of what we want, or what we hope to achieve, but rather on what we can afford. For the aforementioned reasons, I do not believe that we can afford the risks associated with State Center, nor can we justify passing down the consequent costs to our taxpayers.

Thank you for considering my perspective, and once again, for your exceptional service to the State of Maryland.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Franchot", with a stylized flourish at the end.

Peter Franchot
Comptroller

cc: The Honorable Martin O'Malley, Governor
The Honorable Nancy K. Kopp, Treasurer