CPHA Forum: Incentivizing Economic Development and Tax Increment Financing in Baltimore City

Held April 19, 2016
Introduction

On April 19th Citizens Planning & Housing Association (CPHA) held a forum on Incentivizing Economic Development and Tax Increment Financing (TIF) in Baltimore City as part of our 75th anniversary series; a series engaging our citizens on the crucial urban planning and community development issues facing the Baltimore region. This document summarizes the forum and provides links for additional information.

How Baltimore should incentivize economic development, and specifically if the City should use tax increment financing to encourage development, is a significant issue, especially recently. CPHA decided to hold one of its forums on this topic to inform “To TIF or not to TIF” debate. TIFs are used across the country to facilitate development by leveraging expected future tax revenues. The level of discussion about TIFs in Baltimore and nationally has increased significantly over the last several years. At its core the debate is about whether TIFs are a subsidy to developers for projects that would be built anyway, or if they are essential to attract projects for community and economic development. How we use TIFs to attract development is a critical issue in a city such as Baltimore with large community and economic development needs and limited resources to attract jobs and redevelopment.

This issue has heated up recently with the introduction of a $535 million TIF request by Sagamore Development Company for infrastructure development at Port Covington, the largest request in the City’s history and one of the largest nationally. Some refer to any type of subsidy as welfare for the rich, while others claim that Baltimore City must open its arms to any and all subsidies developers request lest the city be viewed as anti-business. Given the range of opinion on TIFs and limited opportunities to date for diverse stakeholders to come together to discuss the issue, CPHA decided to hold a forum on TIFs on Tuesday, April 19 at the University of Baltimore School of Law at the John and Frances Angelos Law Center. The goal was to provide basic background information on how the financing instrument works, how TIFs have been used to date in Baltimore, and to have a fruitful discussion on how this economic development tool can benefit all who call Baltimore City home. The forum consisted of a panel discussion, question and answer session, and audience polling.

CPHA would like to thank the University of Baltimore School of Law, for allowing us to use the Peter and Frances Angelos Law Center for our event.
Panel Discussion

CPHA’s Executive Director Richard Hall opened the forum with some introductory remarks and then turned the floor over to Jayne Miller to moderate. Ms. Miller is a WBAL TV reporter and CPHA board member. The panel consisted of:

- Audrey McFarlane, University of Baltimore Law Professor and CPHA board member;
- Tim Pula, Consultant for Beatty Development which is constructing the development at Harbor Point;
- Scot Spencer, Associate Director for Advocacy and Influence at Annie E. Casey Foundation; and
- Michael Middleton, Cherry Hill Community Coalition and Member of the Opportunity Coalition.

The panel discussion began with an overview of TIFs by Audrey McFarlane. She explained that a TIF works by using the estimated increase in property taxes through new development as a means of paying back bonds issued for infrastructure in the development area. Once the infrastructure bonds are paid off the revenue generated by that development goes into the city’s general fund. The slides from this presentation can be viewed at http://www.cphabaltimore.org/wp-content/uploads/2016/05/McFarlane-TIF-Presentation-April-19-2016-for-Distrib.pdf.
McFarlane explained that TIFs have been used throughout the City. She showed a map of projects developed using TIFs. In addition to the well known Harbor Point development these include the redevelopment of Mondawmin Mall that brought a Target and Shoppers Food market as well as the development of Clipper Mill.

She also discussed the “but for” standard. In order for a TIF to be approved all projects must show that they would not be developed “but for” the TIF. This is to show the project’s rate of return were it to be done without a subsidy would be insufficient, and therefore justify the TIF.

There is also a question as to whether or not a TIF benefits everyone in the community. McFarlane says the City’s TIF legislation measures benefits by looking at:

- Employment Benefits;
- Tax Base Improvements;
- Housing; and
- Other benefits such as transportation, parking, blight renovation.

She then put forth one of the major questions she believes needs to be asked about TIF: how can the tool be used by the City to spur development in its most distressed areas?

After this background presentation, Moderator Jayne Miller questioned Michael Middleton of the Cherry Hill Community Coalition. She asked how Cherry Hill was responding to the Port Covington plan. Middleton noted that Cherry Hill and a number of other communities formed the South Baltimore 6 Coalition so that the communities could be united in their efforts to work with the developers and not be played off against each other.

Middleton also expressed frustration that the city only cares about assisting Cherry Hill since the Port Covington development is coming. Said Middleton:

“What did you do for Cherry Hill when it carried the dump?”
“What did you do for Cherry Hill when it had the trash incinerator?”
“What did you do for Cherry Hill when it had the largest concentration of public housing this side of the Mississippi?”

When Miller asked Middleton if the community supported the Port Covington development, he said they were supportive, so long as the communities were “at the table, not on the table.” Middleton expressed frustration that Port Covington was exempt from the city’s affordable housing requirements.
Jayne Miller next addressed Scott Spencer and asked how to ensure a reasonable and expected community benefit via TIF projects. Spencer stressed how the earlier a proposal comes to the community the better. He also expressed the need for the process to be open and that the community be able to understand what is happening. Spencer said that during the redevelopment of East Baltimore, meetings were held during the day and that even he could not understand some of the developer jargon and terminology being used in the proposals, and that had the consequence of community exclusion. Spencer also emphasized the need for an equity analysis when evaluating development projects.

Tim Pula mentioned that we all pay for public infrastructure and that TIFs are just a way to allow the City to provide that infrastructure in areas where it hasn’t already paid for it. When asked if developers paid for infrastructure in other counties, Pula said they sometimes do, but other counties have much lower tax rates than the City. Pula also stressed there is profit-sharing on TIF developments should they exceed an 18% rate of return and that the developers take the risk of a failed project through a special taxing district; if the revenues generated from the taxes can not repay the bonds this special tax kicks in and the City is devoid risk.

During the question and answer session there was a discussion about affordable housing and whether it should be required for TIF projects. The ability to carry the costs of providing affordable housing was raised and so were Montgomery County’s requirements for providing affordable housing.

There was also a question from the audience about the role TIFs play when it comes to receiving State aid for Baltimore City schools. It was pointed out that the General Assembly had passed a temporary fix that will prevent a reduction in state aid to Baltimore City schools. A more permanent solution will be forthcoming.

An audience member spoke up about the enforceability of Community Benefits Agreements (CBAs). An attorney in the audience who works on community benefits agreements explained that these agreements are legally enforceable but many times they do not have built in monitoring mechanisms to ensuring they are functioning properly.

Entering the CBA discussion an audience member expressed frustration that memorandums of understanding were going before the Board of Estimates without anyone knowing what was in them.
Finally an audience member explained that the location of these TIFs was important as well. The Clipper Mill and Harbor East developments filled important niches with regards to infill and redevelopment in the City. In the case of Clipper Mill, the TIF assisted with the repair of an old, abandoned building, while in Harbor East, development subsidies helped with the completion of the Harbor Promenade. However, according to this audience member, Port Covington is a relatively isolated location and its ability to generate spillover development seemed limited.

Audrey McFarlane then noted how a $10 million TIF is very different from a $550 million TIF in terms of their impact on city finances and how they should be evaluated.
Audience Instant Polling

After the question and answer session with panel, CPHA next did some instant polling of the audience. The purpose of the polling questions was to build on the question and answer with the panel, and to give everyone an opportunity to participate. CPHA used a program where the audience uses their phones to respond to the questions and answers show up instantly on the screen in the room for all to see together.

After a quick warm up question the audience was asked what their top three issues were in making their choice for voting for the next mayor. Below is a word cloud of the results.
The next question asked audience members if they were voting in the Mayoral election. The results were as follows:
The third question asked the audience if TIFs were:

- Always Good
- Always Bad
- It Depends

These were the results:

The purpose of this question was to introduce nuance into the debate into this discussion and to show the importance of objectively evaluating economic development incentives.

CPHA then asked audience members how they feel the city should incentivize economic development. Responses in no particular order:

- Lower taxes
- Improved transit infrastructure
- Promoting community development
- Job Training
- Innovate
- Leadership, getting the house in order
- Transit and bikes
- Community development
- Job creation
● Gather ideas from the community
● A good economic development strategy
● Support entrepreneurs
● Reduce regulations
● Better schools
● Grants
● Market rate housing
● Education
● Using untapped potential in neighborhoods
● Reduce vacant buildings
● Sell the beauty that is Baltimore

The next poll question asked what key items audience members feel should be included in a TIF. Responses in no particular order:
● Community Benefits Agreements
● Mixed income housing
● Public Spaces
● Cut profit sharing with the developer
● Number of required affordable housing units
● Amount and impact
● Recreation and public spaces
● Environmental protection and improvements
● Competent evaluation of the TIF
● P3
● Transparency
● Ensure public purpose
● Ensure school funding
● Public amenities
● Number of jobs created
● Regular monitoring and reporting
● Equity
The audience was then asked if they **supported the Port Covington TIF as currently proposed**.

![Bar chart showing support for Port Covington TIF](chart.png)

It was found that 4% of the audience supported the TIF as proposed, 30% opposed it, and 65% believed they needed more information.

**Conclusion & Recommendations**

The forum participants generally agreed the event provided a meaningful and nuanced conversation on TIFs, and how we can best use them to encourage economic development in the City. While most at the event seemed to agree TIFs are important, much of the discussion centered around having communities more involved in their development and for the whole process to be more transparent.

As an outcome of this forum CPHA recommends that Baltimore City review and implement best practices for TIF transparency and accountability. Such practices could include the following.

- A feature on the city websites (e.g. Cityview and Econview) to understand where and how much TIF has been used across the city and if development has been spurred around development districts.
● Well publicized public meetings (held well before the City Council hearing) by the BDC, the Department of Finance, and the City’s Bond Counsel to outline draft TIF agreements before they are formally considered. These meetings should address the amount, term, and community benefits associated with potential TIFs and whether any agreements are binding or voluntary goals and how they will be enforced. Such meetings should provide the public with a clear understanding of the costs and benefits of proposed TIFs, discuss how they compare to past TIF deals, even if they cannot dive publicly into the current developer’s proforma.

● Regular and mandatory public reporting on the progress of TIFs and associated finances, progress on agreements, etc.

Links to Additional Information

● Chicago TIF Map: http://webapps.cityofchicago.org/ChicagoTif/
● Maryland Department of Planning TIF overview document: https://planning.maryland.gov/PDF/OurProducts/Publications/ModelsGuidelines/mg29.pdf