Economic Incentives for Development in Low-Income Neighborhoods

LAI Baltimore Chapter – September, 2018 meeting

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On September 20th, Bill Struever, Baltimore's most prolific, intrepid and accomplished urban developer, spoke to the Baltimore LAI Chapter's monthly luncheon about economic incentives and their impact on development efforts within challenging neighborhoods.

It was obvious from the start of Bill's talk that his mind works at an abnormally fast pace, and that it contains an encyclopedic knowledge about the history of Baltimore's myriad redevelopment efforts. His words came flying out as his mouth attempted to keep up with the torrent of information bouncing around his mind. Listening to him speak was much akin to "drinking from a firehose", making the job of your humble Scribe a difficult one.

Bill began by opining that "economic development incentives remain hugely important". With respect to Federal incentives, he has witnessed "the steadily diminishing role of Federal Incentives" since he arrived in Baltimore in 1974. "UDAG's were the best incentive, but are now gone" (the acronym stands for Urban Development Action Grants). Bill related that the redevelopment of the Inner Harbor and the adjacent Hyatt Hotel would not have been possible without UDAG's, so they were hugely impactful.

Bill is however encouraged that the new Federal tax law contains some valuable incentives, such as New Markets Tax Credits, LIHTC's, and Opportunity Zones (an entirely new incentive). Bill is an advisor to an innovative, proposed opioid crisis center in West Baltimore that recently sold tax credits, at 75 cents on the dollar, to fund a portion of its capital stack (as opposed to the $1.15 for each tax credit dollar back when he helped to renovate Fenway Park in the mid-1990's). The point being that, although diminished, New Market Tax Credits are still a viable economic development tool. The LIHTC (Low Income Housing Tax Credit) program also survived in this year's new tax bill and "got marginally better".

But the Federal incentive Bill is most optimistic about is the new Opportunity Zones, created within the 2018 Federal tax legislation. In Opportunity Zones, capital gains can be deferred. Bill cited the example of PNC which sold an insurance affiliate and parked approximately $500M of capital gains in an Opportunity Fund that will invest equity into CRA type projects on very favorable terms. All PNC's capital gains from the sale of its entity are deferred. Another example Bill offered is an entrepreneur who started an electronics recycling company with an initial investment of $5M. He anticipates substantial growth in the start-up's value over the coming 10 years, all of which would be untaxed if he holds for 10 years. Bill opined that "we're still trying to figure this out". "No one knows until the regs come out" exactly what the rules will be in Opportunity Zones, but they are obviously going to be a significant incentive to invest in the urban areas that receive the Opportunity Zone designation.

From Federal incentives, Bill moved onto State incentives. He advised that unlimited State Historic Tax Credits, when combined with Federal Tax Credits, was an extremely powerful combination in the past and gave rise to transformative projects such as the American Brewery, Tide Point, and Clipper Mill. An even more recent example of the power of combining State and Federal Historic Tax Credits is Kevin Plank's Pendry Hotel in the City's Fells Point neighborhood. This upscale hotel has had a significant impact on Fells Point and would not have been viable without the combo power of both sets of Tax

Credits. Bill believes the capping of the State's Tax Credit program is short sighted and detrimental to urban development efforts.

Maryland State Grants however, "can have a useful impact" on urban development. Bill cited MDOT grants for transportation infrastructure as an example of State dollars that can be transformative. He referenced an annual study of graduate students in which, for 10 years in a row, the number one criteria on where these students decide to locate is the ability to live without owning a car. Therefore public transportation options become an important key to attracting this economically-uplifting demographic to our City. Bill bemoaned our Governor's decision to kill the proposed Red Line and subsequently direct $11.6B to the Washington DC MSA while providing only $400M to the Baltimore area, with NONE of that money for transit (only road works for cars). He feels this to be extremely short sighted, given the transit oriented perspective of young graduate students.

On the Local/City level, Bill opined that "the City doesn't have an effective incentive program" at present. He continued that "since Mayor Schaffer's 'Shadow Government' days, the effectiveness of the City has been getting worse and harder than ever" to accomplish any significant development within. One potential bright spot for the City however might be the recently established Neighborhood Investment Impact Fund, which is a $50M pot of money derived from the sale of 4 City owned parking garages. The City intends to use these funds to provide small grants to non-profits that will hopefully become "community catalysts".

But the City's "biggest incentive is TIF's". Bill has specific ideas on how TIF's could be tweaked to become materially better incentives. First, he believes that the City's RE tax assessment administration is extremely poor and needs to change. The State took over tax assessments back in Mayor Schaffer's time (apparently Mayor Schaffer grew so weary of fielding complaints about tax assessments, he transferred the administration of all assessments to the State). And the State's assessment office is so badly understaffed that it cannot do an adequate job of keeping assessments current. Bill opines that our RE tax assessments are "50% undervalued", as a result. Until assessments are more realistic, the City will not be able to cut its high tax rates and come into relative parity with the surrounding Counties. And with more realistic assessments, would come the opportunity to make TIF's a much better incentive.

For TIF's to make a substantively larger impact on urban development, Bill believes the following changes should be engineered:

1. <u>Larger TIF Districts</u> – by covering more geography, their impact would increase
2. <u>More kinds of tax increments</u> – including other types of taxation increments within a TIF district, such as sales taxes and income taxes, would enhance their power.
3. <u>Broader uses for TIF dollars</u> – including schools, libraries, parks and affordable housing to the usual road and utility uses, would enhance TIF's impact on challenging City neighborhoods.

As an example of a City project which is benefiting from a larger TIF district, Bill cited the Choice Neighborhoods Baltimore project, which encompasses the Perkins, Somerset, Oldtown redevelopment project, just east of downtown. This 240+/- acre TIF district will be "well funded" and as a result, may help turn around a submarket with 26% employment at present ("NOT 26% unemployment, but 26% <u>employment</u>"). This perennially depressed area of the City is an example of what Bill referred to as "The

Two Baltimores". Bill ended his presentation by emphasizing that "All high profile projects are at risk if there continues to be Two Baltimores".

The members of the Baltimore LAI Chapter are most grateful to Bill for his unique and experience-filled perspective on economic incentives as they relate to urban development.