



Interrogating Harbor Point: An Examination of Baltimore's Economic Development Policies

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Mariah Braxton

Dedication

To my parents, Claude and Meredith Braxton, and my grandparents for their unwavering support.

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Abstract

Interrogating Harbor Point: Examining the Effects of Baltimore's Economic Development Policies

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Introduction

Harbor Point is a soon to be a mixed-use development on the contaminated site that was once home to Allied Chemical's chromium plant¹. This development will be on the waterfront and include Exelon Corporation's regional headquarters, residential buildings, a hotel, office buildings, retail, and the already standing Morgan Stanley building. Though the development promises to add close to \$20M a year to the city's budget, starting in 2025, this is not without government help.² This new development will cost the city approximately \$400M in subsidies³ which include \$25M in Brownfield Property Tax Credits, nearly \$107M in Tax Increment Financing (TIF), and \$88M in Enterprise Zone Property Tax Credits. With the city up fronting close to 40% of this \$1B project constituents have been raising questions.

Supporters of the public assistance, which include Mayor Stephanie Rawlings-Blake, cite the increased tax revenue and thousands new of jobs as the benefits of this investment⁴. These taxes can go to improving education, infrastructure and safety throughout the city. Supporters see this project as having the potential to encourage not only economic growth, but also local hiring. The developer has even voluntarily agreed to the city's new local hiring ordinance and pledged to hire 51% of the new employees from Baltimore⁵, but how permanent are the positions that will be offered? The statistics on the number of new jobs that will accrue as a result of this development are inconsistent, with three different figures coming from three different sources. Since the projected number of new jobs varies

¹ Broadwater, Luke. "Harbor Point bonds get OK." *The Baltimore Sun*. 13 Aug. 2013.

² Harbor Point Development Holdings, LLC. *Harbor Point Application for Tax Increment Financing*. 20 May 2013. Print.

³ Broadwater, Luke. "Harbor Point construction could begin next month." *The Baltimore Sun*. 9 Sept. 2013.

⁴ Broadwater, Luke. "Critics, supporters clash over Harbor Point deal." *The Baltimore Sun* 17 July 2013.

⁵ Broadwater, Luke. "Council gives preliminary OK to Harbor Point financing." *The Baltimore Sun*. 12 August 2013.

by thousands, the argument in favor of public financing due to increased jobs weakens. Residents of nearby neighborhoods have withdrawn their support from Harbor Point's funding fearing that the Enterprise Zones and TIF are only greater defining the dichotomy between the wealthy and poor rather than closing the margin⁶. Constituents that are against the public funding of this project wonder where the money for financing is coming from when funds have been cut for other public services such as education and fire stations⁷.

Both sides maintain that they want the same thing, sustainable economic development, but the best path to reach this goal has been the focus of debate. Is Harbor Point a case of corporate welfare or will it live up to the promises of being a benefactor to the public? To fully understand the implications of this project I will situate Baltimore's current socioeconomic climate in the historical context from which it came. Marisela Gomez, an author and former student of Johns Hopkins University, provides details about the history of the city giving perspective on the relationship between class, race and politics in Baltimore. These relationships are integral to understanding why the Harbor Point project has polarized the city. People's current socioeconomic status in life, which helps to mold their opinion of the project, is in part molded by the historical events that preceded them. The public's opinion has been documented in various residential association statements, while newspapers, government documents and statements, and developer documents are of public record. With this information, the foil between residents and developers and even with in the government will be evident. Past

⁶ United Workers. "15 reasons why we oppose the Harbor Point TIF." *United Workers*. 9 Aug. 2013. Web. 24 Sept. 2013.

⁷ United Workers.

disenfranchisement and the memory of successful and unsuccessful developments were recurring themes on both sides, which is why understanding the success of past developments is necessary.

I plan to use Camden Yards stadium complex, as a case study of comparison. Camden Yards was publicly financed under the belief that it would be an economic stimulus for Baltimore City, not unlike Harbor Point. Harbor Point, however, is a place to sleep and shop, while Camden Yards was also meant to be a tourist destination and attract visitors. Baltimore's development of the waterfront started in the latter half of the 20th century, and a clear look at who has benefited from these developments will shed light on the value of Harbor Point.

To round out my analysis, I will review other practices of economic development in urban areas. Porter, Bates, UISC and O'Sullivan provide ideas on strategies cities should use in order to promote sustainable economic growth. As this is the explicit promise around Harbor Point, theories and models on sustainable economic growth will be valuable in assessing its legitimacy.

Baltimore, a city now associated with poverty and crime, was once a crown jewel of American cities. It's location on the Patapsco River, which feeds into the Chesapeake Bay, put it in prime location to be a center for the trade and shipbuilding industries. Not only was it successful in this regard, Baltimore was also leading the nation in canning and the steel industry by the early 1900's. In fact, it wasn't until the 1950's after experiencing decades of economic and population growth that Baltimore's prominence began to wane.⁸ This wane was most likely a

⁸ Waterfront Partnership. "History of the Harbor." *The Waterfront Partnership of Baltimore Inc.* Web. 12 July 2013.

result of segregationist policies coming to culmination and poor timing. As the black and impoverished population grew in the early 1900s, the wealthy separated themselves by moving into the surrounding counties and suburbs.⁹ *De facto* segregation, put many blacks in the position to pay higher rent than their white counterparts as they could only live in certain areas and thus had no other option. Not only did residential districts segregate blacks, but they were also provided with substandard educational facilities, given high interest loans and had to combat racist employment practices¹⁰. Though Baltimore was thriving economically, the enforced squalor of the growing black population planted the inimical seed for Baltimore's eventual deterioration as an economic powerhouse. After World War II the trend of white flight became more pellucid as the advent of the automobile, allowed for greater ease of movement¹¹. White flight can be so deleterious to a city because it drains city tax revenue, marginalizes constituents, and provides an environment detrimental to employment.¹² All of these factors precipitated Baltimore's economic turmoil in 1952, when the city faced bankruptcy¹³ and the need to reinvent itself as an economic center.

The latter half of the 20th century saw the revival of Baltimore. The city used 240 acres to expand downtown and develop the harbor. By the 1980's Baltimore together with local committees and private companies had attracted major

⁹ Gomez, Marisela B. *Race, Class, Power, and Organizing in East Baltimore: Rebuilding Abandoned Communities in America*. New York: Lexington Books, 2013. Print.

¹⁰ Gomez, Marisela B.

¹¹ Waterfront Partnership.

¹² Frey, William H. "Black In-Migration, White Flight, and the Changing Economic Base of the Central City." *American Journal of Sociology*, 85.6 (1980): 1396-1417. Print.

¹³ Global Harbors Documentary Inc., "Baltimore's Charles Center-Inner Harbor Timeline, 1950-2000." *Global Harbors*. 2008. Web. 17 July 2013.

corporation headquarters, major hotels, built public spaces, a convention center, shopping center, a national aquarium and musical venues. After millions of dollars in investment, Baltimore had made the remarkable change from a city on the brink of bankruptcy to a tourist destination in 30 years¹⁴. And while this plan was lauded and used as a paradigm of urban development for other cities, such as Sydney, Australia¹⁵, Baltimore's urban development still didn't address all the needs of its constituents.

Baltimore still faced issues of racial marginalization, disinvestment and ghettoization; issues with the undeniable propensity to promote crime, unemployment, and drug trafficking among other vexing consequences. In an effort to ameliorate these poverty-inducing circumstances Mayor William Donald Schaefer, in 1982, tried to promote economic development in another fashion. He worked with state lawmakers to create an enterprise zone program that would entice companies and corporations locate in impoverished areas of the city.¹⁶ An enterprise zone provides a property tax-credit to companies that either locate to the targeted zone or make renovations on their property already within zone boundaries. Fifty percent of the city's forgone property taxes are reimbursed by the state, so the enterprise zone program becomes a statewide consumption as well as citywide.¹⁷ "The city forgives 80 percent of the taxes for five years, then the credit diminishes over the next five. The discount in the 10th year is 30 percent", explain *The Baltimore Sun* writers Scott Calvert and Jamie Smith Hopkins. With Baltimore's

¹⁴ Waterfront Partnership.

¹⁵ Global Harbors Documentary Inc.,

¹⁶ Calvert, Scott and Jamie Smith Hopkins. "Taxpayers subsidize pricey city projects." *The Baltimore Sun* 25 Aug. 2013.

¹⁷ Baltimore Development Corporation. *Enterprise Zones*. Baltimore Development Corporation. Web. 10 Aug. 2013.

property taxes being the highest in the state¹⁸ the discount is meant to lure investment into not just the city, but also the poorer areas of the city. Mayor Schaefer's intent was to bring about jobs and growth to blighted communities. The first zone was Park Circle a blighted area that, with the enterprise zone incentives, attracted the development of a sausage factory, an office park and other businesses.¹⁹ Since its inception the zones have expanded and now encompass "...13,000 acres, spanning much of the city and the socioeconomic spectrum" reports *The Baltimore Sun*²⁰. With enterprise zones engulfing so much of the city, the original impetus for them has changed.

And so Harbor Point raises questions broader than just itself. It raises the question of how Baltimore will break the cycle of publicly financing private projects. If Baltimore has a history of development projects deemed to be successes, then why does the city still struggle with population decline and high unemployment? These policies clearly are not addressing the needs of everybody and Harbor Point is a mere embodiment of various failed economic development policies.

¹⁸ Maryland Department of Assessment and Taxation, "2013-2014 County Tax Rates." 15 July 2013. Web. 7 Nov. 2013.

¹⁹ Calvert, Scott and Jamie Smith Hopkins.

²⁰ Calvert, Scott and Jamie Smith Hopkins.

Chapter 1: Harbor Point and a Polarized City

This chapter introduces the controversial Harbor Point development and why it has polarized Charm City. Harbor Point is an approved proposal for a mixed-use development in East Baltimore in which all the buildings will be at minimum LEED-Silver standard. It will lie on the now nearly abandoned 27-acre plot of land, which was once home to Allied Chemical's Chromium Plant.

Figure 1a

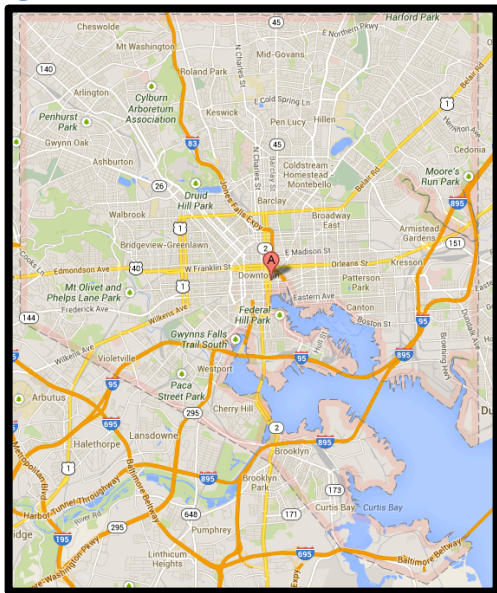


Figure 1b



Developer Michael S. Beatty of Harbor Point Development Holdings, LLC, co-developer of adjacent Harbor East, has already garnered Exelon Corporation as a tenant. Exelon Corporation, as a result of its merger with Constellation Energy Group (CEG), the parent company of Baltimore Gas and Electric (BGE) and a Fortune 500 company, is mandated to “...invest in new construction in the Downtown/Harbor area of Baltimore City for the headquarters of the combined

²¹ “Baltimore, Maryland.” Map. *Google Maps*. Google, 30 Nov. 2013. Web. 30 Nov. 2013.

²² “Baltimore, Maryland.”

company's competitive energy businesses..."²³. So while Exelon must find a home in Baltimore regardless of Harbor Point, there is no such mandate for the construction of Harbor Point.

Upon the completion of Harbor Point, however, Exelon will be in company with the already existing Morgan Stanley Building, more office buildings, residential towers, retail, parks and a promenade. Below in Figure 2a and 2b is an architectural rendering of the complex from EE&K architects.

Figure 2a



Figure 2b



Figure 2a and 2b come from: EE&K, Portfolio. <http://www.eekarchitects.com/portfolio/1-waterfronts/26-harbor-point>

The proposed plans look beautiful and if the hefty price tag of this development or the precedent of Harbor East are any indication, it will surely draw in upscale clientele and residents. People will want to live here to take advantage of the waterfront views and open greenspace. It looks as if Beatty aims to attain the same feel for Harbor Point as was done for Harbor East: an upscale community separated by class and geography from the rest of Baltimore. Harbor Point is slated to cost just over \$1B, \$1,027,706,152, but with the help of Baltimore City public funds the cost to the developer has been drastically diminished. Due to its location, Harbor Point is

²³ Nazarian, Douglas R. M., Harold D. Williams, Lawrence Brenner, Kelly Speakes-Backman, and W. Kevin Hughes. "Order NO. 84698" *Maryland State Archives*. 17 Feb. 2012. Print. 6 Nov. 2013.

eligible for Brownfield Tax Property Credits, Enterprise Zone Property Tax Credits, and Tax Increment Financing (TIF) along with \$50M in federal and municipal funding. All of these abatement policies and bonds are summarized below in Table 1 and decrease the cost and risk to the developer. To put these costs into perspective, \$400M is about 17% of the 2013 Fiscal Budget for Baltimore City, which was 2,304,574,409²⁴.

Table 1

| Amount of Funding | Type of Funding |
|--------------------------|--------------------------------------|
| \$25M | Brownfield Property Tax Credits |
| \$88M | Enterprise Zone Property Tax Credits |
| \$107M | TIF |
| \$174M | Interest on TIF |
| \$50M | Federal and City Funding |

According to the EPA a brownfield is "...real property, [that] the expansion, redevelopment, or reuse of which may be complicated by the presence or potential

Figure 3



presence of a hazardous substance, pollutant, or contaminant."²⁵ As Harbor Point is designed on top of what was once a chromium plant, this concreted over parcel of land shown in Figure 3²⁶ qualifies as such. Brownfield development is important to

²⁴ Baltimore City Department of Finance. "Fiscal 2013 Summary of the Adopted Budget." Web. 9 Dec. 2013.

²⁵ EPA. "Brownfields Definition." USEPA. 4 Oct. 2011. Web. 20 Aug. 2013.

²⁶ Shen, Fern. *The Baltimore Brew*. Web. 11 Sept. 2013.

sustainable growth; “...for every acre of brownfields redeveloped an estimated 4.5 acres of greenspace is preserved”²⁷. However, due to the fear of being saddled with the costs and liability of contamination developers often avoid these sites, opting instead for less risky plots of land.²⁸ The tax abatements, however, ameliorate some of the costs of complying with EPA construction regulations and provide incentives for developers to utilize the land.

The Brownfield Tax Credit in Baltimore City entitles the developer to a “...city property tax credit (for both real and personal property taxes) on the increased property taxes after eligible improvements are made (improved value).”²⁹ As this brownfield site is also part of an enterprise zone the tax credit last 10 years instead of only the 5 years it would last if it were not located in an enterprise zone. In the developer’s application for TIF he sites the apartment buildings located on the brownfield will use the Brownfield Tax Credit of between 50%-70% of their incremental value, which will bring the total Brownfield Tax Credit to \$24,469,947.³⁰ However, this total savings to the developer is a fraction of the total cost to the City, which under current state law will reimburse the state “...\$10,487,120 for a total cost to the City of \$34,957,067.”³¹

In addition to the assistance of \$25M in Brownfield Tax Credits, Harbor Point is also part of the previously mentioned enterprise zones. As expressed earlier, enterprise zones provide a 10-year property tax credit, in which the first 5 years

²⁷ Hula, Richard, Laura Reese and Cynthia Jackson-Elmore. *Reclaiming Brownfields*. Burlington: Ashgate Publishing Company, 2012. Print.

²⁸ Hula, Richard, Laura Reese and Cynthia Jackson-Elmore.

²⁹ Baltimore City Department of Finance. “Brownfield Property Tax Credit.” Web. 9 Oct 2013.

³⁰ Harbor Point Development Holdings, LLC.

³¹ Harbor Point Development Holdings, LLC.

after construction 80% of the property tax is forgiven then “...the credit declines by 10% annually, and full taxes are paid in the eleventh year.”³² The City explicitly states that the zones are intended to “encourage targeted investment in economically distressed areas as measured by unemployment, poverty status, population decline, or property abandonment.”³³ More specifically this means the property must lie in a census tract in which the percent change in population is less than -10%, poverty levels at least 125% times the state average, an unemployment rate of at least 150% of state average, or 70% of resident with under 80% of median income.³⁴

However, census tract 203, the tract where Harbor Point will be, does not meet any of these requirements. In July of 2012, it was removed from the enterprise zone districts when Governor O’Malley approved the redistricting of the enterprise zones from the expired 2002 map.³⁵ Later that month, Harbor Point developer, Michael Beatty, applied to the Baltimore Development Corporation (BDC) for inclusion in the redistricting of zones. The application eventually made it to state level where the BDC, on behalf of Mayor Stephanie Rawlings-Blake, applied for census tract 203 to be reinstated as an enterprise zone. Governor Martin O’Malley approved this addition, along with some others outside of the City, on January 17, 2013.³⁶

³² Baltimore City Department of Finance. “Enterprise Zone Property Tax Credit.” Web. 9 Oct. 2013

³³ Baltimore City Department of Finance. “Enterprise Zone Property Tax Credit.”

³⁴ Baltimore Development Corporation. “2012 EZ Expansion Census Demographics.” 2012. Web. 13 Nov. 2013.

³⁵ Reutter, Mark. “Paterakis group seeks to restore a lucrative tax break for Harbor Point.” *Baltimore Brew* 2 Aug. 2012. Web. 10 Aug. 2013.

³⁶ Maryland Department of Business and Economic Development. “Governor Martin O’Malley Announces Designation, Expansion of Five Maryland Enterprise Zones.” 10 July 2012. Web. 12 Nov. 2013.

The approval was made on the basis of poverty, but as Table 2 shows census tract 203 does not meet *any* of the requirements independently.

Table 2

| Census Tract Number | % Population Change (Less than -10%) | Unemployment Rate (More than 13.92%) | % of Families in Poverty (More than 12.625%) | % of Families Less than 80% of Median Family Income (more than 70%) |
|----------------------------|---|---|---|--|
| 203 | 35.82% | 2.64% | 7.9% | 18.58% |

The Harbor Point tract, however, was still granted enterprise zone status on the stipulation that “[n]on-Eligible census tracts may be included in the Enterprise Zone as long as the averaged data meets the criteria...”³⁷. Table 3 below shows the data for census tract 203 along with the data for the consolidated enterprise zones (the census tracts already deemed enterprise zones).

Table 3

| Census Tract Number | % Population Change (Less than -10%) | Unemployment Rate (More than 13.92%) | % of Families in Poverty (More than 12.625%) | % of Families Less than 80% of Median Family Income (more than 70%) |
|--|---|---|---|--|
| Consolidated EZ with 203 Tract Data | -4.67% | 12.27% | <u>20.01%</u> | 46.09% |

The addition of Harbor Point to the data allows the aggregate data of the percent of families in poverty to remain above 1.25 times the national average. As only one of these criteria is needed to become an enterprise zone this was enough to make Harbor Point eligible for inclusion. Thus, Beatty was able to capitalize off the poverty of surrounding tracts to become an enterprise zone, garnering a tax credit

³⁷ Baltimore Development Corporation. *Census Tract Data*. Baltimore Development Corporation. Web. 10 Aug. 2013.

of \$88,383,724, which comes at a cost to the city of \$44,191,862 after a 50% reimbursement from the state.³⁸

The final form of public assistance comes in the fashion of Tax Increment Financing (TIF). The previous sources of aid have been tax credits. TIFs however, are not tax credits, they are bonds issued to the developer(s); this money is then used to finance the construction of public infrastructure at or near the planned development site. The bonds are then paid back with the "...taxes generated by the increased property value due to the development project..."³⁹ They provide "...the opportunity to leverage limited public financing of public infrastructure and site preparation in order to maintain and attract private investment."⁴⁰ According to Baltimore's TIF policy, bonds will only be issued if the project in question passes the 'but for' test. That is to say that development would not occur, but for TIF funding.⁴¹ The following are some of the acceptable qualifications of the 'but for' clause that the city accepts⁴²:

- Persistent lack of development at the project site;
- Unusual development costs;
- Lack of private funds for the project;
- Lack of other forms of public assistance;
- A projected pro-forma indicating that the projected return on investment (without the TIF assistance) is below a market rate of return.

Developer Beatty has applied and been approved, by a city council vote of 11-3, for a three-phase TIF bond which totals \$106, 931, 276. The interest and fees that will

³⁸ Harbor Point Development Holdings, LLC.

³⁹ Fry, Donald C. "Harbor Point Tax Increment Financing Proposal Support with Amendments." *Greater Baltimore Committee*. 7 Aug. 2013.

⁴⁰ Baltimore Development Corporation. *Pilots and TIFS*. Baltimore Development Corporation. Web. 10 Aug. 2013.

⁴¹ Board of Finance of Baltimore City, Department of Finance, and Bureau of Treasury Management. "Tax Increment Financing Policy and Project Submission Requirements." Baltimore: Baltimore City, 23 Jan. 2013.

⁴² Board of Finance of Baltimore City Department of Finance and Bureau of Treasury Management.

accumulate with these bonds will put the city in a debt of close to \$283M.⁴³ The bonds accrue interest at 6.5% over the course of 30 years, which is why the value of the bonds increases from the advertised \$107M to the actual \$238M.⁴⁴

Table 4 is from Beatty's TIF application, in which the costs and phasing of specific infrastructure are clearly outlined.

Table 4

Table 6: Infrastructure Costs and Phasing

| <i>Infrastructure</i> | <i>Phase I</i> | <i>Phase II</i> | <i>Phase III</i> |
|-----------------------|----------------|-----------------|------------------|
| Dock St. | \$5,188,602 | | |
| Point St. | 643,382 | | |
| Cent. Ave. Bridge | 10,400,000 | | |
| Wills St. | 1,639,512 | | |
| Central Square | 15,855,006 | | |
| Crossroads School | 2,000,000 | | |
| Block St. | | 2,886,328 | |
| Wills St. Extension | | 2,959,575 | |
| Caroline Park | | 794,889 | |
| Promenade | | 5,408,657 | 16,225,971 |
| West Park | | | 3,276,197 |
| Point Park | | | 34,162,224 |
| Waterfront Park | | | 5,042,932 |
| Transit Piers | | | 448,001 |
| Subtotal | 35,726,502 | 12,049,449 | 59,155,325 |
| Grand Total | | | 106,931,276 |

As you can see from the chart above, the first installment of bonds is \$35,726,502, which Beatty has agreed to buy himself at an interest rate of 6.5 %. The money accrued from interest will allow him to pay for a construction loan. Since Beatty has \$35M, one might ask why he is buying the TIF bonds instead of just financing the

⁴³ Broadwater, Luke. "Harbor Point bonds get OK."

⁴⁴ Broadwater, Luke. "Harbor Point developer to buy project's city-issued bonds." *The Baltimore Sun* 16 Aug. 2013.

construction himself. If Beatty has at least this amount of money then the passing of the TIF on the grounds of it meeting the 'but for' clause is rather dubious. He clearly does not *need* the full \$107M requested as he currently has \$35M to buy bonds. According to Stephen M. Kraus, the chief of treasury management, selling the bonds directly to Michael Beatty "...would save the city about \$6.5 million in financing, legal and other costs".⁴⁵ But since Beatty has the money to fund at least \$35M of the project, the \$6.5M the city saves in selling the bonds to Beatty is more costly than not approving the TIF for the full \$107M in the first place.

Further issues with the use of the 'but-for' clause come from the reported internal rate of return (IRR). From his own application, Beatty concedes to an IRR of 9.00% without the help of TIF (Table 5). This, according to Beatty, "...would not attract outside investors, [it] is a return that is prohibitively low to justify the risk and expense of moving forward with the project without TIF assistance".⁴⁶ Thus the developer has decided that 'but for' the TIF bonds, which increase IRR to 12.55%, the construction of Harbor Point would not go forward. However, Councilman Bill Henry, 1 of the 3 council members who voted against the TIF, explained the ambiguity surrounding what constitutes below market rate of return. He called it a "subjective data point"⁴⁷, one that means different things to different developers. Some developers might be satisfied with a 9% IRR, while others, including Beatty, require more. Since Beatty felt a 9% IRR was too low and 'but for' the TIF he would not be able to build, it became the job of city council to decide if this was the best

⁴⁵ Broadwater, Luke. "Harbor Point developer to buy project's city-issued bonds."

⁴⁶ Harbor Point Development Holdings, LLC.

⁴⁷ Henry, Bill. Personal Interview. 6 Nov. 2013.

deal they could strike with Beatty or any other developer. It was a gamble, and at the end of the day an overwhelming majority of city council believed TIF funding was essential to ensure development.

Table 5

| Comparison of Developer Returns | | |
|--|-----------------------------|-------------------------------|
| | No Public Assistance | With Public Assistance |
| Public Financing | \$0 | \$106,931,276 |
| Private Financing | \$1,027,706,153 | \$920,774,877 |
| | | |
| IRR | 9.00% | 12.55% |

Given that nearly \$400M in public assistance has been approved, it is clear that city council and the Mayor are proponents of funding Harbor Point. Other supporters of financing include the Baltimore Development Corporation (BDC), the city's Board of Finance, Rod Easter (president of Baltimore Building and Construction Trades Council), some citizens, along with "minority and construction contractors"⁴⁸. Their support comes from the belief that Harbor Point will bring

thousands of jobs to the city, remove

blight and increase annual tax

revenue. Between the Baltimore Sun,

Baltimore City's website and Beatty's

TIF Application three different

figures regarding the number of new

Table 6

| Number of New Jobs According to Different Sources | | |
|--|------------------------------------|---------------------------------|
| | Number of Construction Jobs | Number of Permanent Jobs |
| Baltimore City | 7,175 | 6,611 |
| Baltimore Sun | 7,000 | 3,000 |
| Beatty's TIF Application | 4,345 | 6,661 |

jobs have been reported. Even given the nebulous job projections, supporters are convinced that this project is what the city needs to excite economic and business

⁴⁸ Broadwater, Luke. "Critics, supporters clash over Harbor Point deal."

activity. “It is a catalytic project. It is a smart investment that’s gonna create jobs and spur more development,” said Mayor Rawlings-Blake at a press conference held immediately after the passing of the TIF.⁴⁹ Councilman Jim Kraft of District 1, the district in which Harbor Point will be located, supports the project due to the support his constituents have shown and the public benefit of the open space. “[T]here really is no park in Harbor East ... there is no place for them if they just want to come and just enjoy the water,” said Kraft ⁵⁰, and the parks at Harbor Point will provide this needed green space. Another positive resulting from this green space and development will be the removal of blight. Mayor Rawlings-Blake has expressed that this development will remove the blight that Allied Chemical created when it left. Development on this abandoned site will bring social capital to this area of the city and increase annual contribution to the general fund. Over the next 30 years, officials have said that the increased property and other taxes from Harbor Point could net almost \$600M dollars.⁵¹ This large increase in tax revue could fund public services such as education, police and fire. With these benefits in mind, supporters don’t question that supporting Harbor Point will yield positive results for the City of Baltimore.

Opponents of the public financing, however, view these promises with suspicion. Opponents include the Downtown Management Authority (DMA), Fells Point Residents Association, Perkins Homes Residents Association, Peter Angelos (majority owner of the Orioles), Greater Baltimore Committee (GBC), Westside

⁴⁹ Reed, Kai. “City Council approves Harbor Point project.” *WBALTV11*. 10 Sept. 2013. Web. 11 Sept. 2013.

⁵⁰ Burns, Kenneth P. and Nathan Sterner. “Supporters, Opponents Speak Out about Harbor Point Financing.” *WYPR*. 18 July 2013. Web. 12 Sept. 2013.

⁵¹ Jackson, Kai. “Controversial Harbor Point Development Approved By City Council.” *CBS Baltimore*. 9 Sept. 2013. Web. 11 Sept. 2013.

Renaissance and a select few city council members. These community leaders and organizations have vocalized concern over the amount of debt that will loom over the city as a result of public financing. Councilman Carl Stokes, one of the most vocal Council Members against Harbor Point, has called into question the numbers regarding job creation and tax revenue saying that these figures are difficult to predict decades in advance.⁵² Given the inconsistency in job numbers, Councilman Stokes is not being overly despondent by questioning Harbor Point's impact. The DMA has echoed Councilman Stokes' suspicion. The community organization represents over 1,200 property owners in downtown and 9 of the 10 highest property tax payers in the city. In August, they released an official statement of their dissent toward TIF funding for Harbor Point. Over the past ten years the DMA has contributed over \$50M in private funds to assist the city in public infrastructure within its' district.⁵³ Given the assistance they have shown the City, the DMA expressed frustration over Harbor Point's contingency for a TIF after they had been denied the same type of funding.

It makes little sense to fund the construction of brand new infrastructure when existing infrastructure needs assistance, or to require the DMA to piece together limited public funds over an extremely long time period for infrastructure problems that plague it today, while Harbor Point is permitted to borrow extraordinary amounts to accomplish its work immediately. ⁵⁴

Here, the DMA airs its' concerns over the preferential treatment that Harbor Point is shown. With a deteriorating downtown environment in competition with a newly renovated mixed-use complex, competition for tenants "...could have lopsided

⁵² Kilar, Steven. "Benefits of Harbor Point tax deal outweigh cost, mayor says." *The Baltimore Sun* 3 June 2013.

⁵³ Downtown Management Authority of Baltimore. "August 6, 2013 Statement" 6 Aug. 2013.

⁵⁴ Downtown Management Authority of Baltimore.

incentives if the TIF were approved”⁵⁵. Approving the TIF could cause tenants to relocate from downtown to Harbor Point, much like when Legg Mason moved from downtown to Harbor East, which was granted 95% Payment in Lieu of Taxes.⁵⁶ This brings up the unanswered question of if there will really be new jobs or if large employers will just relocate from downtown to Harbor Point. Uneven competition within the city is one more reason community organizations have to give pause to the amount of public financing Harbor Point has received.

But even if public financing does increase jobs, does not lead to job relocation and will increase tax revenue by the reported \$20M annually, the City will not benefit from this until 2025.⁵⁷ This means years of forgone property taxes equating to almost “...\$200 million in lost state aid for city schools over time...”⁵⁸ according to Ronald Kreitner, President of the Westside Renaissance. The critics regard the cost of years of forgone revenue as outweighing the benefit from increased revenue starting in 2025. In an effort to reduce the amount of debt the City undertakes, Councilman Henry proposed reducing the amount of the TIF to \$35M, which would cover the first phase of the TIF plan (shown again below in Table 7 for reference) and not the subsequent parks. To put the money allocated to the parks at Harbor Point (\$65M) into perspective, it is just under double what the City allotted for the entire Recreation and Parks Department (\$33,035,965) in the 2013 Fiscal Budget⁵⁹.

⁵⁵Downtown Management Authority of Baltimore.

⁵⁶Downtown Management Authority of Baltimore.

⁵⁷Broadwater, Luke. “Harbor Point bonds get OK.”

⁵⁸ Broadwater, Luke. “What’s the total price tag on Harbor Point’s public subsidies?” *The Baltimore Sun* 21 July 2013.

⁵⁹ Baltimore City Department of Finance. “Fiscal 2013 Summary of the Adopted Budget.” Web. 9 Dec. 2013.

Table 7

Table 6: Infrastructure Costs and Phasing

| <i>Infrastructure</i> | <i>Phase I</i> | <i>Phase II</i> | <i>Phase III</i> |
|-----------------------|----------------|-----------------|------------------|
| Dock St. | \$5,188,602 | | |
| Point St. | 643,382 | | |
| Cent. Ave. Bridge | 10,400,000 | | |
| Wills St. | 1,639,512 | | |
| Central Square | 15,855,006 | | |
| Crossroads School | 2,000,000 | | |
| Block St. | | 2,886,328 | |
| Wills St. Extension | | 2,959,575 | |
| Caroline Park | | 794,889 | |
| Promenade | | 5,408,657 | 16,225,971 |
| West Park | | | 3,276,197 |
| Point Park | | | 34,162,224 |
| Waterfront Park | | | 5,042,932 |
| Transit Piers | | | 448,001 |
| Subtotal | 35,726,502 | 12,049,449 | 59,155,325 |
| Grand Total | | | 106,931,276 |

Councilman Henry's recommendation was similar to what the BGC proposed in their official statement regarding their support of the Harbor Point TIF Proposal. The GBC is an organization comprised of 500 businesses, non profits, civic and educational institutions focused on improving the business climate of the region.⁶⁰ In their statement they gave their support for TIF funding but only for Phase I. While Phase I is under construction the GBC feels a more formalized plan of remaining construction would ensue, which would encourage further private sector investment. The GBC acknowledges that this is significantly lower than what the

⁶⁰ Greater Baltimore Committee. Home page. Baltimore. 2013. Web. 6 13 Nov. 2013.

developer was hoping for, but approving a TIF at this value would “provide a level of fiscal restraint needed to protect the city of Baltimore’s revenue structure”.⁶¹

These suggestions, however, did not pass, leaving residents and community leaders frustrated with the lack of transparency and community involvement. Roxie Herbekian, President of UNITE HERE, and international union representing hospitality workers expressed frustration with the lack of openness to change regarding the TIF⁶². The United Workers, a nonprofit organization representing low wage workers, also called into question the manner in which decisions surrounding Harbor Point have been made. The state’s Open Meetings Compliance Board found the City’s Board of Finance guilty of illegally barring the public from a May 20, 2013 meeting regarding \$107M in public financing of Harbor Point.⁶³ The government’s violation of transparency laws only heightened critics’ skepticism of Harbor Point.

In addition, Beatty has not fully engendered himself to the public. When asked what will become of Exelon if the TIF is not approved, Beatty answered with, ““Maybe they’ll keep it in Chicago, I don’t know””.⁶⁴ This veiled threat of Exelon separating itself from the City was incorrect and played on citizens’ misconceptions of where Exelon’s commitments lay. As explained earlier, as mandated by the Maryland Public Service Commission, Exelon *must* locate its headquarters in Baltimore. Exelon had a batch of places from which to choose for its headquarters. It chose Harbor Point, however, if Harbor Point is not actualized Exelon is still mandated to find a locale for its headquarters in the Downtown/Harbor area of

⁶¹ Fry, Donald C.

⁶² Broadwater, Luke. “Harbor Point construction could begin next month.” *The Baltimore Sun* 9 Sept. 2013.

⁶³ Broadwater, Luke. “Baltimore violated Open Meetings Act on Harbor Point deal.” *The Baltimore Sun* 29 July 2013.

⁶⁴ Lambert, Jack. “Developer Beatty: No city tax deal, no Harbor Point.” *Baltimore Business Journal* 6 June 2013. Web. 10 Aug. 2013

Baltimore City.⁶⁵ Beatty's statement was loaded with false information and did little to generate support for a project that has already been the subject of transparency issues.

Baltimore has a history of disenfranchisement of its black and poor constituency and while this thesis is not about race, the racial undertones regarding the direction of investment cannot be ignored. Harbor Point is an exclusionary development that is being built with the help of government funds. It will attract a wealthier clientele and resident base; it will aid in gentrifying a city that is struggling with 22.4% of its population living below the poverty line.⁶⁶ Later on, I will discuss the racially discriminatory loaning practices in the inner city that propagate poverty. But for now I am analyzing the choice of diction: is *blight removal* another way of calling for *gentrification* of a city that is 63.6% black? This is not an argument against gentrification, but it is important to note that Harbor Point is a community of which many in Baltimore will not be a part.

Two camps have been assembled: those for public financing and those against. The City has become polarized over which option is best for galvanizing economic activity in Baltimore. Public opposition is just as strong as municipal support, and with a power struggle that has not lead to compromise, many feel outraged by the decisions being made.

⁶⁵ Lambert, Jack. "Exelon says it's committed to Baltimore HQ mandated by PSC." *Baltimore Business Journal* June 6, 2013. Web. 10 Aug 2013.

⁶⁶ U.S. Census Bureau. "State and County QuickFacts: Baltimore City, Maryland." *U.S. Census Bureau*. 17 July 2013. Web. 6 Nov. 2013.

Chapter 2: Efficacy of Promises

This chapter will focus on the fundamental economic issues in the policies surrounding Harbor Point by analyzing different urban economic development strategies and beneficiaries. Brendan O’Flaherty, an economic professor at Columbia University refers to economic development as “...activities and policies designed to increase the amount of market activity taking place in a particular city-bringing in jobs for instance.”⁶⁷ Definitions of economic development abound, but this one most closely matches with the goals set forth by the city of Baltimore and thus is most appropriate for this paper.

Economic Development Theory

Perhaps the key problem in funding Harbor Point is that the explicit promise of economic growth in the form of new jobs and increased tax revenue, which are to be spread across the city, is fundamentally flawed. In the long run, economic development only economically benefits landowners, not renters or workers who do not own their property.⁶⁸ With this in mind, to suggest economic development as a benefit of this project is a promise the City just cannot keep. This dismal view of economic development is rooted in economic theory and models. Models of supply and demand curves from Brendan O’ Flaherty’s *City Economics*, can show how the short term and long term benefits to the worker unfold.

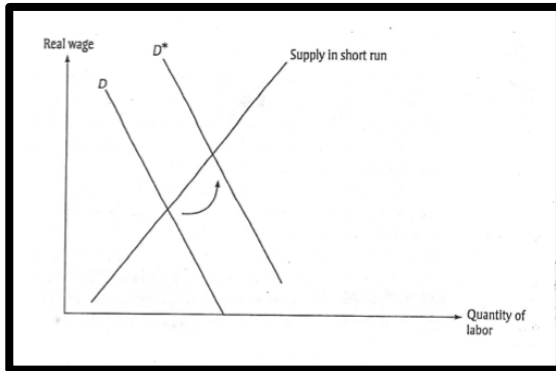
In the short run, economic development increases the demand for labor and thus the wage per worker is increased. This is a short-term gain for the worker because companies need more employees and are willing to pay a higher price for

⁶⁷ O’Flaherty, Brendan. *City Economics*, Cambridge: Harvard University Press, 2005. Print.

⁶⁸ O’Flaherty, Brendan.

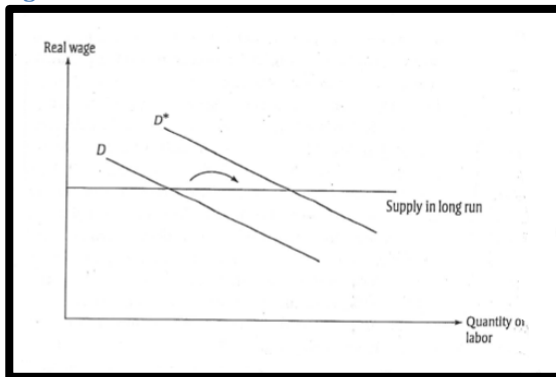
them, reducing unemployment and increasing wages.⁶⁹ This is demonstrated graphically in Figure 4a by a supply demand curve for labor.

Figure 4a



⁷⁰This short-term gain, however, yields long-term losses or inconsequential change from workers situations pre-development. This is because as wages rise people from outside the city will begin to migrate to the city to take advantage of the increased utility, a result of the increased wages. This influx of people increases the labor supply bringing down the cost (wage) of labor leaving the native worker with a wage that is no better than it was before the increase in development⁷¹ (Figure 4b).

Figure 4b



Timothy J. Bartik, a senior economist at the W.E. Upjohn Institute, is a scholar who has crafted his expertise in state and local economic development policies. His research fits in well with the institute's mission of finding feasible ways to ameliorate unemployment as well as understanding its causes and effects. Bartik's

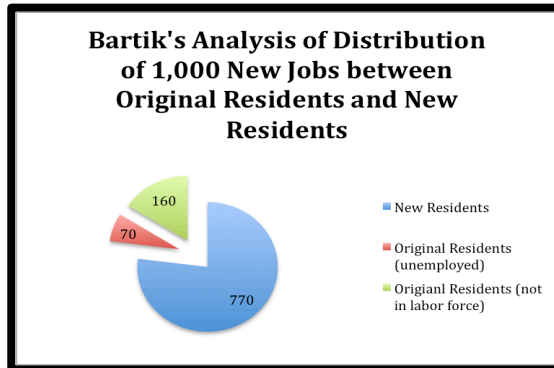
⁶⁹ Bartik, Timothy J. *Who Benefits From State and Local Economic Development Policies?* Kalamazoo: W. E. Upjohn Institute, 1991. Print.

⁷⁰ O'Flaherty, Brendan.

⁷¹ Bartik, Timothy J.

conclusion of who benefits from new jobs as a result of local economic development is shown below in Figure 5. This chart indicates that most of the jobs that are brought to an area go to new residents⁷², supporting O’Flaherty’s theory above.

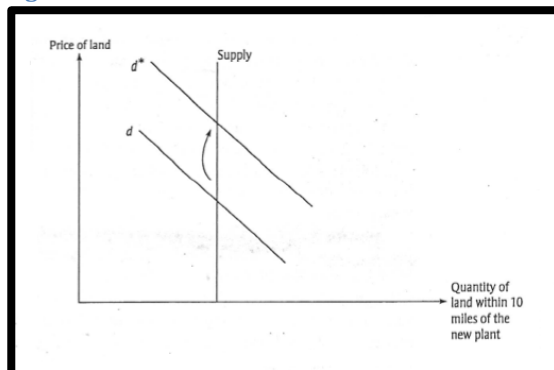
Figure 5



Thus, any benefits resulting from economic development come in the form of increased value of land. As the city becomes more and more developed the supply of land remains unchanged.

However, the supply of developable land becomes scarcer, causing the demand for land to increase, as well as the cost of land (Figure 6).

Figure 6



⁷³So in the long run, the true economic winner is the developer, his parcel of land increases in value, and other landowners whose personal utility increases as a result of higher land

values. The utility of native residents that are renters, however, remains relatively unchanged as migration brings competition to the job market lowering wages and the amount of jobs available to native dwellers.⁷⁴ So perhaps instead of just economic development Baltimore should focus on policies that not only generate growth, but also meet the current needs of constituents. This would create a sustainable economic base, rather than just supporting developers and landowners.

⁷² O’Sullivan, Arthur. *Urban Economics*. 8th ed. Boston: McGraw-Hill/Irwin, 2012.Print.

⁷³ O’Flaherty, Brendan.

⁷⁴ O’Flaherty, Brendan.

Enterprise Zone Impact

The idea that economic development is not of much benefit to native workers in terms of increased employment or wages is strengthened by the historically weak influence of Urban Enterprise Zones. As explained earlier, in Baltimore enterprise zones qualify property owners, who either renovate their existing property or construct new property, for a 10-year property tax credit. “The theory behind enterprise zones is that the external benefits of business activity in poor and minority neighborhoods are much greater than their external benefits in other neighborhoods”.⁷⁵ However, Baltimore has seen the expansion of enterprise zones beyond the impoverished boundaries they were implemented to affect.

As explained in Chapter 1, the census tract of Harbor Point, tract 203, was *not* reinstated as an enterprise zone because it is one of the poorest and blighted tracts in the city. It was *only* reinstated because its addition did not affect the average data for the aggregate of the city’s zones in one of the four qualifying fields. Meaning that the addition of census tract 203’s data to the rest of the zone’s data did not disqualify the total zones (all zones including tract 203) from meeting the requirements of an enterprise zone. But perhaps it does not matter how many or few zones are in the system because regardless, empirical research on Urban Enterprise Zone programs reveals underwhelming results.

Though the research conducted on Baltimore’s Enterprise Zones specifically has been hard to find, empirical research on enterprise zone effectiveness in general is available. At best, it is found that they produce negligible positive impacts.

⁷⁵ O’Flaherty, Brendan.

Bollinger and Ihlandfeldt in their 2003 research on the effectiveness of Atlanta's various incentive programs, for example, found positive effects in a "...neighborhood's share of regional employment"⁷⁶ when it belonged to an enterprise zone. Their research however, did not take into consideration to whom the jobs were going. It is unclear if native zone residents or if outsiders who moved into the zone were benefiting from the surge of new employment opportunities. Other places, such as Indiana, experienced a small impact or increased employment with per capita income left unchanged⁷⁷. Boarnet and Bogart, in their study of enterprise zones in New Jersey municipalities, found that the zones had no effect on municipal employment or increased employment in specific sectors.⁷⁸ In addition to Boarnet and Bogart's research, Peters and Fisher through their analysis of 14 different cities in 11 states found that the majority of zone residents worked outside of the zone while "...the vast majority of zone jobs were taken by non-zone residents"⁷⁹ The lack of spatial advantage zone residents have to zone jobs sheds light implicit assumption of spatial-mismatch in the construct of enterprise zones. Though not overtly mentioned, it is implicit that job proximity and accessibility are barriers of access to employment for zone residents. Thus, the theory implies that if more employment opportunities are presented within the zone, more zone residents will find employment. In almost all cases that Peters and Fisher analyzed,

⁷⁶ Bollinger, Christopher R. and Keith R. Ihlanfeldt. "The intraurban spatial distribution of employment: which government interventions make a difference?" *Journal of Urban Economics*. 53.3 (2003). Print.

⁷⁷ O'Flaherty, Brendan.

⁷⁸ Boarnet, Marlon G. and William T. Bogart. "Enterprise Zones and Employment: Evidence from New Jersey." *Journal of Urban Economics*. 40.2 (1996): 198-215. Print.

⁷⁹ Peters, Allan H. and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?*. Kalamazoo: W.E. Upjohn Institute for Employment Research, 2002. Print.

zone residents had a longer commute⁸⁰. This suggests that spatial mismatch, an underlying assumption of the enterprise zone construct, is less problematic than believed. Overall enterprise zones fall short of their goal of growing business activity and reducing unemployment for zone residents.

And though largely ineffective, the goal of enterprise zones remains a noble one: to lure businesses to areas of chronic unemployment so that the economic spillover might aid the unemployed and bring a sense of social capital to a once blighted area. Why doesn't it work though? One reason is that many times, as in the case with Baltimore, the abatements are linked to new capital investments or hires. This allows businesses new to the zone to grow faster, which stunts the growth of existing businesses, creating overall negligible effects in growth of business activity within the zone.⁸¹ O'Flaherty reconciles the prevalence of ineffective enterprise zones with the thought that "...the real goal of enterprise zones may be to make casual observers think that people's lives are getting better, rather than to make people's lives better."⁸²

Camden Yards

The empty promises of local economic development have been made before; so naturally some citizens are cynical when it comes to Harbor Point's contribution to Baltimore. Camden Yards, the sports complex including Oriole Park and Ravens Stadium, was one such a project. Though Camden Yards cannot be directly compared with Harbor Point, it is an example of how public financing of private

⁸⁰ Peters, Allan H. and Peter S. Fisher.

⁸¹ O'Flaherty, Brendan.

⁸² O'Flaherty, Brendan.

projects, under the pretense of economic development, does not necessarily achieve this goal.

Many tout Camden Yards as the ideal stadium, the stadium from which all other should be modeled. In fact, many other cities, St. Louis, Pittsburgh, Cincinnati, Detroit, and Cleveland, modeled their urban renewal efforts after the perceived success of Baltimore's Camden Yards.⁸³ Once Baltimore lost the Colts to Indianapolis in 1984, the City and State felt the need to protect themselves from losing their last professional sports team, the Orioles, to another city.⁸⁴ Thus, Camden Yards was promised in order to retain the Orioles and lure the Cleveland Browns to Baltimore.⁸⁵

But the construction of Camden Yards was more than just an effort to keep professional sports part of the Baltimore identity. "City and state officials [saw] the ballpark as a catalyst for an economic development thrust on the west side of downtown," reported *The Baltimore Sun* in 1992 just days before Oriole Park at Camden Yards was to open.⁸⁶ The then governor, William Donald Schaefer, and Maryland Stadium Authority (MSA) Chairman, Herbert J. Belgrad, felt this was an economic development project that would create jobs and draw people to the City.⁸⁷ They were not alone in this thought process; Joan Davidson, marketing manager of

⁸³ Miserendino, Louis. "Was Camden Yards worth it?" *The Baltimore Sun*. 26 March 2012. Web. 12 Nov. 2013.

⁸⁴ Hamilton, Bruce and Peter Khan. "Baltimore's Camden Yards Ballpark." *Working Paper in Economics*. 378 (1996). Web. 10 Oct. 2013.

⁸⁵ Hamilton, Bruce and Peter Khan.

⁸⁶ Gunts, Edward. "Stadiums are at the top of the order in several revitalization efforts." *The Baltimore Sun* 30 March 1992. Web. 14 Nov. 2013.

⁸⁷ Gunts, Edward.

the company that developed Harborplace, recognized Camden Yards as a tourist attraction that would make Baltimore “...one of the cities worth visiting again”.⁸⁸ Just as Harborplace and the National Aquarium brought national attention and tourism to Baltimore so would Camden Yards.

Given the positive benefits that state and city officials expected to accrue, it is not entirely surprising that so much of the Camden Yards project was publicly financed. Ninety-five percent of the 502 million dollar investment of Camden Yards came from public funds, most notably state lottery bonds.⁸⁹ In addition to the mostly state funded construction, the city of Baltimore also declared it would make a “contribut[ion] [of] \$1 million a year for 30 years toward construction costs”⁹⁰ of specifically Oriole Park. The use of state funds is not entirely unlike the public financing of Harbor Point, which is financed in part by State Enterprise Zones. Baltimore’s forgone property taxes, as a result of the enterprise zone, are subsidized by the State of Maryland, burdening not only the City but also the State. So though not an exact replica Camden Yards serves as a point of comparison of the failed method of using gross public funding as a means to keep the promise of economic development. In many ways, Harbor Point is another form of Camden Yards, except Camden Yards had the added benefit of being a tourist destination, a feature that Harbor Point is lacking.

According to Hamilton and Kahn’s 1996 study on Camden Yards, Oriole Park creates a deficit for the state. MSA pays for the carrying and operating costs of the

⁸⁸ Gunts, Edward.

⁸⁹ Chapin, Timothy S. “Sports Facilities as Urban Economic Redevelopment Catalysts.” *Journal of the American Planning Association*. 70.2 (2004): 193-209. Print.

⁹⁰ Kilar, Steven. “The economics of Orioles Park.” *Baltimore Urban Affairs Report*. (2011). Web. 17 Sept. 2013.

park, a bill totaling nearly \$20M/year (approximately \$14M for capital costs and \$6M for operating costs). This loss is only partially recouped by the \$11M/per year in rent and admissions tax revenue, leaving the state with an annual deficit of about \$9M from Oriole Park alone.⁹¹

Considering the millions of dollars in public investment, Baltimore's downtown has gained little in the way of economic activity. Oriole Park specifically, provides the city with \$1,038,681 a year from admissions tax revenue. However, once the city makes its annual \$1M payment to the Camden Yards Fund it only collects \$38,681 in actual additional revenue.

Though Hamilton and Khan calculated Baltimore to be receiving approximately \$3M/year in job creation (\$.48M) and tax-import benefits (\$1.25M in out-of-state incremental taxes, \$1.2M in incremental admission tax, and \$.43M in sales tax on incremental stadium spending)⁹² this comes at a cost of "...\$11M, or about \$14.70 per year per Baltimore metro household"⁹³ once the \$14M in capital costs is taken into account. This study only analyzed Oriole Park from its inception to 1996, but it is useful nearly 20 years later as it shows that even from the beginning Camden Yards was not the massive economic catalyst it was predicted to be. This is also consistent with Timothy S. Chapin's more recent (2004) research on Camden Yards, in which he finds that there has been little economic development in the areas immediately surrounding the complex:

It was hoped that new business activity would flow into the city's old retail district, north along Howard and Eutaw Streets [streets in the immediate

⁹¹ Hamilton, Bruce and Peter Khan.

⁹² Hamilton, Bruce and Peter Khan.

⁹³ Hamilton, Bruce and Peter Khan

vicinity of the park]. These corridors have continued to decline despite the success of the city's Inner Harbor and the massive tourist and visitor spending along the waterfront.⁹⁴

A major component of economic growth is a growing population; the influx of new jobs attracts new residents to these jobs. Baltimore's six consecutive decades of population decline was a trend that not even Camden Yards could combat. Between 1990 and 2000 the city's population decreased by 11.5%⁹⁵⁹⁶ a reduction that continued though at a lesser rate between 2000 and 2010 when the population declined by only 4.6%. This population decline, inherently adverse to sustainable economic development, is one last example of how Camden Yards failed Baltimore as an economic catalyst.

Why did Camden Yards Fail?

So why has there not been "...a dramatic transformation in the immediate vicinity of Camden Station" as *The Baltimore Sun* had predicted?⁹⁷ In *City Economics*, O'Flaherty examines why professional sports franchises do not necessitate economic development, contrary to the arguments of some planners and developers. This is partly due to the fact that the money drawn into the stadium is largely local money that leaves the city. Citizens buy tickets to the games, but the majority of this revenue goes to "...players, coaches and managers, and owners- none of whom are especially likely to live in the region year-round."⁹⁸ Because the

⁹⁴Chapin, Timothy S.

⁹⁵ Maryland Department of Planning. "2011 Maryland Statistical Handbook." *Maryland State Data Center*. May 2012. Web. 20 Nov. 2013.

⁹⁶ Forstall, Richard L. "Maryland Population of Counties by Decennial Census: 1900 to 1990." *United States Bureau of the Census*. Washington, DC. 1995. Web. 20 Nov. 2013.

⁹⁷ Chapin, Timothy S.

⁹⁸ O'Flaherty, Brendan.

revenue is likely being invested in places outside the city, the indirect profits to the city from the stadium's presence are minimal.

Moreover, though stadiums bring in large crowds who might patron local bars and restaurants, stadiums only produce this bustling traffic a few days out of the year. On the many days when the stadium lays vacant the heavy street traffic of game day evaporates, a discontinuity that can be more of a detriment to economic activity than a stimulus.⁹⁹ O'Flaherty suggests that instead of subsidizing a stadium in the hopes that it will lead to development a city should subsidize more specific economic development ventures. For example, if a city believes small businesses, jobs, restaurants, or more offices would encourage growth then subsidizing these ventures individually is a more direct way of invoking change than the roundabout investment of a sports stadium.¹⁰⁰

Regardless of whether O'Flaherty's suggestion of direct subsidies is the best approach to promoting sustainable economic development, we know that Baltimore's history of publicly financing private projects is not successful. It is time to explore other options for sustainable economic development. This is a necessary risk for Baltimore and any city struggling with failed economic development policies to take on. Without a change, the city will continue to inadequately meet the needs of its most economically vulnerable residents.

⁹⁹ O'Flaherty, Brendan.

¹⁰⁰ O'Flaherty, Brendan.

Chapter 3: Alternative Methods of Economic Development

Given the complications around popular economic development policies and Baltimore's past efforts what should Baltimore do to create more jobs and aid the economically disadvantaged? This chapter focuses on alternative methods of sustainable economic development. Chapter 2 outlined a basic flaw in economic development policy: in the long run it usually only increases land values rather than employment and wages. Taking this into consideration, it is necessary that new economic development policies eventuate the goal of elevating the economically disadvantaged of Baltimore. This is not a simple task and the following options are not intended to cure all the failings of Baltimore's antecedent policies; they are simply presentations of other schools of thought that Baltimore and other cities in similar positions might try.

Michael Porter from Harvard Business School has become a premier author on inner city economic development. He recognizes that the "...economic distress of America's inner cities may be the most pressing issue facing the nation."¹⁰¹ Acknowledging that methods on best practices of aiding the inner city are divisive, he offers his own approach to creating a sustainable economic base in the inner city. If nothing else, what Baltimore should take away from Porter is that "...revitalizing the inner city will require a radically new approach."¹⁰² Since the current policies are not yielding results, Baltimore needs to consider different means of achieving a sustainable economy in the inner city.

¹⁰¹ Porter, Michael. "The Competitive Advantage of the Inner City." *Harvard Business Review*, May/June (1995): 55-71. Print.

¹⁰² Porter, Michael.

In his article in the *Harvard Business Review*, Porter acknowledges the failed attempts of many cities to revitalize their inner city neighborhoods. He cites their failure as a result of urban policies that redistribute wealth instead of creating it. The inner city is riddled with disadvantages such as an insufficient inventory of usable land, high building costs, low security, in addition to lack of capital, management and employment skills. However, even with all the things working against the inner city there are still advantages that can be exploited. Inner cities are strategically located in close proximity to downtown business districts, infrastructure and business clusters. Clusters are integral to a business' success as it allows knowledge spillovers, shared intermediate inputs and labor pooling.¹⁰³ If these positive aspects of inner cities can be harnessed, the inner city has enough human resources to generate sustainable economic activity. With this in mind, he argues, policy makers need to create an infrastructure that supports businesses.

Properly Use Government Funds

His first suggestion is that municipal government funds should go directly to areas in the greatest amount of economic distress, as many times government assistance programs aren't targeted toward the areas with greatest economic need. While this might not appear to be a novel idea, it is certainly not a trivial point. As in the case of Harbor Point we see funding (TIFs) going to a place that would arguably be developed with or without the full amount of requested public financing. However, the same funding was denied to the DMA or central business district, which has been losing tenants due to "...aging public infrastructure that surrounds

¹⁰³ O'Sullivan, Arthur.

their properties”¹⁰⁴. The denial of funds to the already established and deteriorating central business district in favor of an undeveloped parcel of land is an example of inverted priorities. “Infrastructure improvements should go to making inner city areas more attractive business locations. And crime prevention resources should go to high-crime inner city areas.”¹⁰⁵ Spending money in a way that prioritizes areas most in need of investment is a simple step forward in aiding our inner cities.

Provide Incentives Through Land

As stated earlier, the cost to build in a city can be prohibitively expensive. Blighted areas might need increased market activity, but this can only happen if businesses can afford to locate there. Porter then suggests that municipal governments create “...building ready sites at market prices.”¹⁰⁶ With this strategy businesses can compete in the free market for land and the need for subsidies and tax abatements is unnecessary as the cost of demolition, clean up and other building costs have already been covered by the city. This makes building a profitable investment for the company, while equalizing competition.

This could be a nice alternative to enterprise zones. Instead of deeming some plots of land worthy of a 10-year tax abatement, making it harder for existing proprietors in areas without these incentives to compete for tenants, the city could make land desirable, sell it at market price and keep competition for tenants fair. This would also create a climate of job creation instead of job redistribution from one area of the city without incentives to another area with them.

¹⁰⁴ Downtown Management Authority of Baltimore.

¹⁰⁵ Porter, Michael.

¹⁰⁶ Porter, Michael.

According to Porter, Baltimore is on the right track with using Brownfield Tax Credits and TIF to support development. Brownfield clean up can be expensive and many times the liability of contamination prevents developers from touching these sites. To combat this Porter suggests cities “mak[e] environmental cleanup standards more flexible depending on land use, indemnifying land owners against additional costs if contamination is found on a site after a cleanup, and using tax-increment financing to help fund cleanup and redevelopment costs.”¹⁰⁷ Porter’s suggestion of relaxing environmental cleanup standards raises concerns of the health of our environment and community. However, the overall take away from this recommendation is that local governments need to assist developers in the redevelopment of contaminated spaces. This point **must** be taken in conjunction with Porter’s earlier statement of putting funds where they are in greatest need. So while Baltimore’s use of Brownfield Tax Credits is an appropriate use of funds going toward an area in great need, their use of TIF goes beyond need-based use. Porter would suggest the use of TIF insofar as they assist with public infrastructure (sewers, streets, street lighting), but not for superfluous expenditures such as the parks and plazas it is supporting at Harbor Point or to increase the IRR of the developer.

Jettison Preference Programs and Subsidies

Porter argues that preference programs are an ineffective way of promoting economic improvement because they effectually guarantee a market to companies. He uses the example of how many businesses shortly after graduating from the

¹⁰⁷ Porter, Michael.

Small Business Association's preference program went out of business due to lack of support. To combat this Porter suggests that preference programs should be rewritten to "require an increasing amount of non-set-aside business over time."¹⁰⁸ Without guaranteed support, businesses will be forced to stay creative and motivated in order to remain in business.

Porter goes on to condemn direct subsidies as another ineffective model. Instead he calls for governments to spend money on "...site assembly, extra security, environmental cleanup and other investments designed to improve the business environment".¹⁰⁹ Taking away the comfort of being subsidized forces companies to make decisions based on profit, the same way all other businesses make decisions.

The underlying motive here is to treat inner city companies the same as all other companies. Allowing them to compete on the free market and make decisions based on "...self-interest and genuine competitive advantage..."¹¹⁰ Government can incentivize this behavior by creating a climate amenable to businesses.

In the case of Baltimore, this might mean that the Enterprise Zone Tax Credit is either taken away completely or revamped. If it were to be remodeled, it might make the most sense for Enterprise Zone Tax Credit to only expand or continue if the zoned area showed economic improvement. If an enterprise zone was not performing well (ie. unemployment for zone residents did not decrease, businesses were not relocating or investing within the zone, or wages did not increase) then the

¹⁰⁸ Porter, Michael.

¹⁰⁹ Porter, Michael.

¹¹⁰ Porter, Michael.

program should be cut. This would save the City from losing tax revenue to incentive programs that were failing.

Perhaps another more effective way for the City to increase employment is by taking the suggestion of Sawicki and Moody and increase the number of minority owned firms. Ethnic minorities are a sizable portion of the inner city demographic, thus increasing their employment would be a step toward creating a more sustainable economy. Bates' 2006 research found that most jobs available in the small business sector were in white-owned companies, who hired friends and family, making it hard for minority job seekers to gain employment.¹¹¹ He found that white and black small business owners most often hired employees of their own race, which is problematic when whites disproportionately hold the positions of hiring. With this knowledge of hiring practices, Sawicki and Moody suggest that it might be best to increase employment opportunities for minorities "...by expanding the size and number of minority-owned businesses wherever they [choose] to locate, rather than using place-based local area economic development schemes."¹¹² This again calls into question the use of the enterprise zones. Instead of tackling unemployment in the neighborhoods of the unemployed, it might be more effective to provide incentives to the employers most likely to hire them. Assessing the success of these programs is key to retaining municipal funds and meeting the goal of sustainable economic development.

¹¹¹ Bates, Timothy. "Alleviating the Financial Capital Barriers Impeding Business Development in Inner Cities." *Journal of the American Planning Association* 76.3 (2010): 349-362. Print.

¹¹² Bates, Timothy.

Private Sector as Service Provider

Perhaps most controversial is Porter's claim that instead of relying to non-profit and quasi-governmental organizations to provide capital and business related support the private sector should take over this area of service. Venture capital and commercial banks, according to Porter, can provide higher quality "...training, advice and support to substantial companies..."¹¹³ and thus "...resources currently going to governmental or quasi-public financing would be better channeled through other private financial institutions or directed at recapitalizing minority-owned banks focusing on inner city."¹¹⁴ This however, relies heavily on the idea that private institutions care about providing inner city businesses with the necessary capital and resources to succeed. Porter suspects private institutions would see this as a lucrative business venture if the state and federal government eliminated taxes on capital gains on long-term investments in inner city based businesses or businesses hiring a minimum percentage of inner city residents.

Responses to Porter

Few would argue with Porter's identification of lack of capital as a notable problem facing inner city businesses. He views privatization of capital services as a more efficient use of government money and the time of inner city businesses. However, it does not quite take into consideration the discriminatory loaning practices that plague inner cities. Though not in the way Porter thinks is ideal, the government does encourage for-profit banks to lend to inner city companies by

¹¹³ Porter, Michael.

¹¹⁴ Porter, Michael.

“...providing default insurance to banks through the US Small Business Administration’s (SBA) 7 (a) loan guarantee program and by subsidizing business leaders”¹¹⁵. Porter might not like the SBA’s preference program, but surely a loan guarantee program must be an attractive incentive to mainstream banks when loaning in the inner city. Yet even with these incentives Timothy Bates, an economist who analyzed the efficacy of Porter’s claims, found that Chicago was consistent with other cities in that “...loan availability was lowest in Black and Hispanic neighborhoods in all cases”¹¹⁶. These are demographics that typically dominate the inner city, so even with government incentives it is still hard to get private companies to see the value in investing in inner city businesses.

In practice, inner city loans alone were not even able to sustain a venture capitalist firm designed by Porter himself. In 1996, he and a colleague “...sought to launch [a private, for-profit VC fund] specifically to invest equity capital in inner-city companies and firms owned by minorities.”¹¹⁷ Two of his most successful MBA student’s headed the firm named ICV, but the IRR on ventures in the inner city “...lagged far behind the returns earned on its other investments”¹¹⁸. In order to preserve the firm, ICV had to diversify its portfolio to reduce the risk posed by inner-city investment.¹¹⁹

The failure of ICV, Porter’s proposed inner city focused venture capitalist firm, to profit from its inner-city investments shows that Porter’s theory does not necessarily match up with reality. However, Porter is not wrong in acknowledging

¹¹⁵ Bates, Timothy.

¹¹⁶ Bates, Timothy.

¹¹⁷ Bates, Timothy.

¹¹⁸ Bates, Timothy.

¹¹⁹ Bates, Timothy.

that a new way of investing capital in our inner cities must be realized; his idea just did not operate as he had envisioned in his 1995 article.

Medallion Funding in New York City is an example of a specialized small business investment corporation (SSBIC) that was able to profitably lend to inner city businesses. Instead of venture capitalism, Medallion Funding is a debt-capital firm that relies on asset-based lending to control for risk.¹²⁰ “[R]equiring loan recipients to offer collateral sufficient to cover the outstanding loan amount...”¹²¹ ensures that regardless of the success of the borrower the loan is still paid. As an SSBIC, Medallion borrows from the SBA at subsidized below market rates, allowing again for reduced cost in investment¹²². Asset-base lending and subsidized borrowing aid in Medallion’s success, but many other SSBIC’s benefit from SBA’s subsidized borrowing and are not as successful as Medallion.

Bates attributes Medallion’s success to “expertise of its management and its large scale of operations that permits prudent diversification of its loan portfolio, cost-efficient operations and steady cash flow.”¹²³ The benefit that Medallion enjoys over other SSBICs is that it operates under excellent management; other SSBICs might get the same benefits from SBA, but this is of no true benefit if its ill managed. Medallion is a real world success of Michael Porter’s theory; private lending in the inner city in fact can be profitable. This realization is important because it addresses the capital needs of many people who do not qualify for loans from traditional banks or firms. With capital coming from private firms it not only spares

¹²⁰ Bates, Timothy.

¹²¹ Bates, Timothy.

¹²² Bates, Timothy.

¹²³ Bates, Timothy.

government funds, but also ameliorates the issue of insufficient capital in poorer neighborhoods.

Johnson, Farrell, and Henderson of the Urban Investment Strategies Center (UISC), also provided counter suggestions to Porter's model of economic development. While Porter views privatization of business support and capital, these researchers insist that government, non-profits and the private sector "...must all work collaboratively to direct their resources to economically viable projects."¹²⁴ Instead of discarding community based organizations and non-profits as ineffective, Johnson, Farrell, and Henderson believe these social resource programs should be redesigned to adequately address the needs of inner city communities.

UISC is a community revitalization center, focused specifically on inner cities, run out of the University of North Carolina at Chapel Hill (UNC-CH). Urban Enterprise Corps (UEC) was a primary tool used by the UISC in disseminating knowledge and offering managerial assistance. The UEC helped guide underperforming minority businesses to success through intense and productive mentoring. Some of the most important things the UEC provided was the knowledge that the Porter felt only private companies possessed.

UEC recruits and trains talented graduates of the nation's leading MBA programs to provide technical and managerial assistance to inner city businesses, community-based economic development institutions-including minority-owned banks, credit unions, and savings and loan associations¹²⁵

¹²⁴ Johnson Jr., James H. Walter C. Farrell, Jr. and Geraldine R. Henderson. "Mr. Porter's 'Competitive Advantage' for Inner-City Revitalization: Exploitation or Empowerment?" *The Inner City: Urban Poverty and Economic Development in the Next Century*. Ed. Thomas D. Boston and Catherine L. Ross. New Brunswick: Transaction Publishers, 1997. 259-289. Print.

¹²⁵ Johnson Jr., James H. Walter C. Farrell, Jr. and Geraldine R. Henderson.

With the knowledge transfer coming from the UEC, CEOs of companies working closely with the UEC attributed their growth to the technical and managerial assistance they received¹²⁶. Table 8 shows the growth of three companies from the start of the UEC program (1993) to 1997. The UEC allowed them the social, intellectual, and economic capital to expand their employment by a total of 78.8% and gross receipts received by 145%.

Table 8

| Industry | Contract Expansion | | | Employment Expansion* | | |
|--|--------------------|-------------|----------|-----------------------|------|----------|
| | 1993 | 1995 | % Change | 1993 | 1995 | % Change |
| Metal Fabrication Firm | \$960,000 | \$3,100,000 | 222.9 | 13 | 36 | 176.9 |
| Electronic Mechanical Assembler | \$1,800,000 | \$2,800,000 | 55.5 | 19 | 23 | 21.1 |
| Logistical Transportation Service Firm | \$29,000 | \$934,000 | 3120.7 | 20 | 34 | 79 |
| Total | \$2,789,090 | \$6,834,000 | 145 | 52 | 93 | 78.8 |

* Full-time Employment Opportunities

¹²⁷These are promising numbers and testify to the fact that community based organizations and non profits can yield a lot in the way of effective business related support.

What made the UEC program successful was that it used a two-pronged approach to assistance. It trained community based organizations to be more effective mentors and guides to businesses, while also guiding businesses through managerial and technical challenges. The UEC program was a comprehensive way of tackling inner city revitalization. In contrast to Porter's view, UISC has proved with the UEC program in Durham, North Carolina, that non-profit groups can be effective in assisting businesses, including ones in the inner city. The larger UISC umbrella from

¹²⁶ Johnson Jr., James H. Walter C. Farrell, Jr. and Geraldine R. Henderson.

¹²⁷ Johnson Jr., James H. Walter C. Farrell, Jr. and Geraldine R. Henderson.

which came the UEC program could serve as a model for other community-private sector partnerships needed to achieve reinvestment in the inner city.¹²⁸

Porter's theory on economic development in the inner city has sparked a much needed debate on the best way to attain economic security in our most vulnerable neighborhoods. His theory might not always work in practice, as in the case of venture capital investment in the inner city, but it is good to see that his goal can be met through some tweeking. Just as it is promising to see that some of the institutions with which Porter finds fault, non profit and quasi-public finance and support organizations, can be mended rather than abandoned. Even given the opposition, Porter makes some great suggestions: assisting areas in greatest need first and abandoning preference programs. His acknowledgement of the competitive advantages of the inner city is pertinent as it puts value on a place that in the eyes of many has lost all its virtue.

¹²⁸ Johnson Jr., James H. Walter C. Farrell, Jr. and Geraldine R. Henderson.

Conclusion: Is Harbor Point Worth the Investment?

Harbor Point is meant to be a project from which the “whole city is able to reap the benefits”¹²⁹. It is intended to bring jobs, though there is confusion between the Mayor, developer and *The Baltimore Sun* as to how many. It is intended to create green space that the whole city can use, although it isolates four parks in one neighborhood of the city. It is intended to remove blight, which it will accomplish, but not without raising the questions concerning the more pressing and underserved blighted neighborhoods in the city. The renewal of a brownfield site is exciting and seemingly better than developing on a greenfield site. However, piercing the seal that contains toxic chromium waste raises environmental and health concerns.

With Harbor Point, it seems as if every potential positive comes with a potential negative of equal magnitude. Harbor Point should add nearly \$20M in city tax revenue, but this is not until 2025 and after the city has already invested nearly \$400M into the \$1B project. So is this investment worth it? Provided what we know about Camden Yards’ impact on employment, the weak findings of enterprise zones, and the questionable use of the ‘but for’ clause to allocate TIF funds Harbor Point is not worth the investment.

The Mayor and many members of City Council have gone through extreme lengths to ensure that developer, Michael S. Beatty, constructs on the concreted over lot. But this desire to please the developer is unnecessary. The only tenant that Beatty has secured for this new development is Exelon Corporation, a company that

¹²⁹ Broadwater, Luke. “Harbor Point bonds get OK.”

will be forced to locate its headquarters in Baltimore regardless of Harbor Point's realization. It, therefore, seems senseless to pour money into a development where the only tenant gained so far is one that has to be in Baltimore anyways.

Also, to forgo the full amount of property taxes for 10 years due to the previously mentioned combination of tax credits and debt services is to forgo 10 years of contribution "...to Baltimore's general fund for police, schools and other services."¹³⁰ Ronald Kreitner, head of the non-profit West Side Renaissance, expressed concerns that the subsidies would cost "...\$200 million in lost state revenue for schools..."¹³¹ Since allocation of state educational funds is based on property values and Harbor Point will not be contributing property taxes for 10 years; children are amongst those to lose out due to public financing. This however, appears to be of trivial importance to the Mayor as her spokesperson Ryan O'Doherty said, "It strains credulity to suggest that Baltimore shouldn't try to create jobs and grow revenue because of school funding formulas."¹³²

When it comes to jobs, enterprise zones are an ineffective method of increasing employment. As we saw with Camden Yards, throwing money at a private project with the intent to catalyze economic development is also ineffective. In addition to weak policies, the confusion in job projections adds little faith to the idea that Harbor Point will actually draw new jobs to the City. If Baltimore truly wants to create jobs then it needs to try a different strategy; the ones being used in Harbor Point are tried and failed methods that yield little change. Baltimore would

¹³⁰ Broadwater, Luke. "What's the total price tag on Harbor Point's public subsidies?"

¹³¹ Broadwater, Luke. "Critics, supporters clash over Harbor Point deal."

¹³² Broadwater, Luke. "Critics, supporters clash over Harbor Point deal."

be better-served in thinking of new ways to cure the blight in areas where people live rather than appeasing a developer who can rectify blight of a nearly abandoned waterfront parcel. The Downtown Management Authority is right in being skeptical of the public assistance that Harbor Point has received, especially since they were denied the TIF bonds for which Harbor Point was approved. This is an example of the city showing preference for a new high-end waterfront development over deteriorating public infrastructure and buildings in the central business district. Baltimore needs to reprioritize how it spends money.

Like Porter suggested, funds should go to the places in greatest need first. Harbor Point is not in greatest need. As it is on a brownfield site, it should benefit from the Brownfield Tax Credits (\$25M). It should also benefit from the street infrastructure that the TIF will pay for (\$35M), but it is not necessary for the development to reap the benefits of TIF for parks, promenades and piers (\$107M) or from Enterprise Zone Tax Credits (\$88M). Unfortunately, as beautiful as this project will be when completed it is likely not to benefit the City as promised and is thus not a good investment for Baltimore.

While at this point little can be done to stop the construction of Harbor Point, Baltimore and other cities in a rut of failed economic development policies should look to new ideas in the future. The public financing of private projects is a policy that must be replaced. There is no guarantee that new policies will work, but we already know that the policies currently in use do not. It is better to start with a future that is uncertain than one that is destined to fail. With this in mind, hopefully

Baltimore can move forward and design programs and policies with the potency to create sustainable economic development.

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