Subsidizing the Low Road: Economic Development in Baltimore

by

Good Jobs First

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with

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Good Jobs First is a national non-profit resource center promoting best practices in state and local economic development. It was founded in 1998 by Greg LeRoy, author of *No More Candy Store: States and Cities Making Job Subsidies Accountable.*

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Executive Summary

An analysis of Baltimore's economic development efforts reveals a recurring history of high costs, low benefits, and a lack of safeguards to ensure that taxpayer investments really pay off in family-wage jobs and an enhanced tax base. Unlike most states and many big cities, Baltimore has no job quality standards, or laws requiring subsidized companies to pay a certain wage or to provide healthcare. The pattern is especially troubling today, as the city increasingly employs local tax expenditures – foregone future revenues – instead of federal or state dollars to finance development deals.

The analysis also finds pervasive *process* problems. Baltimore's privatized system for initiating deals – through the Baltimore Development Corporation (BDC) – affords taxpayers little opportunity for input as deals are shaped, and often only perfunctory chances to analyze or comment before they are formally authorized by the Board of Estimates or the City Council. The BDC's records are secret, exempted from the Maryland Public Information Act. More broadly, citizen organizations have few meaningful ways to engage in and influence long-term priority-setting. Citizen participation is also discouraged by budget reporting systems that make the city's economic development spending difficult to discern.

In past decades as Baltimore City's manufacturing base eroded, it aggressively promoted tourism and the redevelopment of the central business district. In the 1970s and 1980s, Baltimore successfully transformed the Inner Harbor into a popular tourist destination. However, the city neglected to enact standards to ensure that the new tourism jobs were of high quality. As a result, low wages and part-time hours are so prevalent that all but three of the city's non-managerial tourism job titles pay less than the federal poverty line for a family of four; many pay far less.

The need to ensure that tourism subsidies create public benefits is critical because the costs are so high. Government bodies have spent $2 billion in building and maintaining the city's tourist facilities since the 1970s, and hundreds of millions more in subsidies to tourism-related businesses. Costs will remain high, because to remain competitive as a destination, Baltimore, like other places, will have to make big investments to constantly reinvent itself.

The Maryland Stadium Authority (MSA) built two sports stadiums in Baltimore in the 1990s, for the Orioles baseball team and the Ravens football team. Consistent with a large body of literature that finds such facilities are poor deals, academic studies find that Baltimore's stadiums are not breaking even fiscally. A study by the Brookings Institution estimates that Camden Yards generates approximately $3 million for

Maryland in revenue but costs the state's taxpayers is $14 million a year. On the other hand, the owners of the two sports franchises have benefited substantially from the taxpayer-subsidized facilities.

The city continues to focus its economic development resources downtown and along the waterfront, including luxury apartments and retail in the West Side, office space and parking garages downtown, and the conversion of abandoned factories into high-tech office space. In 2002, the city budgeted more than $150 million to support economic development projects; of this, $40 million was appropriated for tourism and almost $30 million was set aside to build parking lots downtown.

Baltimore is also planning around $200 million in public subsidies for a 25-acre biotechnology park north of the Johns Hopkins University Medical Center that would dislocate many homeowners, tenants and small businesses. However, many of the assumptions behind that project's public-benefit projections seem overly optimistic; the industry is still highly speculative and dependent on venture capital, and many other cities also have "cluster" site-location advantages. Only if research succeeds and creates commercialized drugs can the park create production jobs that are most likely to benefit current Baltimore residents; most such jobs are 10 to 20 years away, and there is no guarantee production will occur in the city. Nor is there any guarantee the companies will stay once they succeed.

The city's development efforts are increasingly reliant on local tax expenditures. Within the past five years, the state legislature has passed legislation allowing the city to use both property tax abatements (called payments in lieu of taxes or PILOTs) and tax increment financing (TIF, a diversion of property taxes) for development projects. The city's first PILOT was awarded to the Waterfront Marriott hotel in 1999; it will cause the city to forego $2.3 million in uncollected property taxes in 2002 and approximately $30 million over the next 25 years.[1] The city recently authorized its first TIF project; it will divert more than $8 million in tax revenues to finance waterfront infrastructure.

Despite the high costs of PILOTs, the city does not attach any kind of job quality standards – such as wage or healthcare requirements – to them, even though the program is targeted to hotel and retail developments, two industries that pay very low wages and benefits and use high rates of part-time labor.

Driving the use of these costly new subsidies is the Baltimore Development Corporation (BDC), the city's dominant economic development agency. The BDC is effectively controlled by the mayor, who appoints the BDC board; neither the City Council nor the Board of Estimates has any statutory influence over BDC personnel, although the Council, Board and Planning Commission do review various types or parts

of packages. The BDC evaluates proposals, sometimes using outside consultants, and does monitor its loan and grant agreements, including following up on whether recipients have achieved job targets. The BDC does not employ clawbacks, or contractual recapture provisions, to recoup monies if a company fails to meet job requirements. A recent BDC review of 29 deals indicates positive job creation and finds that about half of new jobs go to city residents, but gives no deal-specific information on the range of wages paid or whether healthcare benefits are provided.

Policy Options for More Effective Economic Development

To address the shortcomings found in our analysis, we offer policy options:

- *Enhance Public Participation* – by reducing the Board of Estimates to its three elected officials; by requiring 30-day advance public hearings on each proposed subsidy with full disclosure of the deals' scope, costs and benefits; and by giving notice of such hearings to anyone who signs up as an interested party.

- *Institutionalize More Community Input* – by including more representatives from community and labor organizations on the boards of city economic development agencies.

- *Track and Report Outcomes* – by requiring every subsidized company to submit an annual report on the number and quality of jobs created, including the wages paid, whether the jobs are full-time or part-time and any benefits provided (especially health care); by verifying job and wage data against unemployment insurance records; by making these reports readily available to the public; and by having the Baltimore City Comptroller do a performance audit of the BDC with particular attention to wages and benefits.

- *Publish a Unified Economic Development Budget* – from the mayor's office annually to both break out and aggregate data on all costs of each type of subsidy awarded by the city and agencies, including the BDC, including on-budget spending, such as loans, grants, and infrastructure, as well as off-budget spending, such as PILOTs and tax credits, as well as outcomes such as jobs created and wages and benefits paid.

- *End the BDC's Privilege of Secrecy* – by making the records of the Baltimore Development Corporation subject to Maryland's Public Information Act.

- *Adopt Job Quality Standards* – via an ordinance covering all development subsidies. Wage standards could be pegged to the city's existing living wage law; however, market-based standards (i.e., average city wages or average industry wages) with a poverty floor would be more consistent with the intent of economic development. A mandate for healthcare insurance would avoid the hidden taxpayer costs of employees at subsidized companies relying on Medicaid.

- *Adopt Clawbacks* – or recapture requirements that call for pro-rated refunds if a company misses job creation or wage requirements after two years.

- *Cap TIF and PILOT Property-Tax Costs* – by limiting the share of the city's property tax base that can be captured by either program to one or two percent. This would shield education and ensure that the city balances its goals of economic growth and quality service provision.

1. Revitalizing Downtown: A History of Economic Development in Baltimore

Economic development efforts in downtown Baltimore began as early as the mid-1950s, when Baltimore City started to lose its position as the metropolitan area's population and employment center. Baltimore's population peaked at 950,000 in 1950, when it was the sixth largest city in the country. At that time, 70% of the region's population was located in the city.[2] By 2000, Baltimore's population had declined to 651,000, with just 26% of the region's total population.[3] Along with the shrinkage of the city's overall population, there was a substantial change in its racial composition. Baltimore went from being 24% African-American in 1950 to 60% in 2000.[4]

As the city lost population, it also lost industrial jobs. In 1950, Baltimore was one of the country's leading industrial centers. Over 34% of the city's workforce was employed in manufacturing and over 75% of jobs in the region were located in the city.[5] Between 1950 and 1995, Baltimore lost 75% of its industrial employment.[6] Today, only 7.5% of city jobs are in manufacturing.

Mid-1950s to 1960s: Laying the groundwork for a downtown-focused strategy

Baltimore's first major economic development projects were undertaken in response to concerns voiced by business leaders, who in the mid-1950s were already detecting signs of softening property values and weakening retail activity in the downtown business district. This was a consequence of the city's inability to attract much private investment to the downtown district; in fact, no major construction had occurred there since the 1920s.[7] The shift of major port activity from the Inner Harbor to deeper waters farther down Chesapeake Bay and to other East Coast docks left more than two million square feet of vacant loft and warehouse space near the center of downtown.[8]

The push for redevelopment came primarily from the city's leading financial institutions, such as Maryland National Bank, Mercantile Safe Deposit and Trust Company and First National Bank.[9] The main concern of the banks was to stimulate commercial real estate development and retailing. Despite the fact that manufacturing employment was already starting to decline, there was much less emphasis from these business leaders on blue-collar jobs. The Baltimore area was home to the headquarters of only one Fortune 500 manufacturing company (Black and Decker).[10]

The main vehicle for these revitalization efforts was the Greater Baltimore Committee (GBC), an organization created in 1954 that was made up of the chief executive officers of Baltimore's 100 largest businesses, most of which were located downtown. The first downtown project of the GBC was Charles Center: 33 acres of

offices, apartments and retail businesses. This project, which broke ground in 1959, was completed at a cost of $180 million, including $40 million in public funds.[11] The second initiative of the GBC was a 30-year, $270 million plan to develop the Inner Harbor into 240 acres of tourist attractions, offices, retail business and housing. By the mid-1960s, funds were approved for land acquisition and site clearance, which was under way by the end of the decade. Although investor and public skepticism initially slowed the project, the development proceeded after Mayor William Donald Schaefer took office in 1971.[12]

In 1965, at the urging of the Greater Baltimore Committee, the city created the Charles Center-Inner Harbor Management, Inc. (CCIHM) to coordinate activities -- such as planning, marketing, negotiating, and managing public spaces -- related to the two major redevelopment projects. CCIHM, the first of many quasi-public economic development corporations in Baltimore, was given certain powers usually reserved for government agencies, including the allocation of public money and the right of eminent domain. But because CCIHM was still semi-private, it was exempt from many laws and regulations faced by city agencies, such as disclosure and competitive bidding. This allowed CCIHM to engage in contract negotiations that were kept confidential up to the point that formal approval was sought from the city's mayoral-dominated Board of Estimates.[13] CCIHM reported to the Department of Housing and Community Development, and its funds were approved by the Board of Estimates, giving the mayor a strong role in overseeing its operations.[14]

1970s to late 1980s: Schaefer's "Entrepreneurial Government"

After taking office, Mayor Schaefer worked hard to promote the idea of using "public/private partnerships" to pursue economic development. The city bent over backwards to be seen as business-friendly, with Schaefer telling businesses he sought to recruit that "Baltimore wants you so badly, we'll let you write your own terms."[15] Schaefer, who continued to focus on real estate, retailing and tourism sectors rather than manufacturing, sought to create what one academic, Marc Levine, called a "developer's city," offering below-market loans, land write-downs, sale lease-back agreements and property tax abatements.[16]

The Inner Harbor

Nowhere was this seen more clearly than in the redevelopment of the Inner Harbor. Schaefer became the leading promoter of the Inner Harbor and arranged for the city to pour public funds and resources into the project. The city acquired and demolished more than 400 structures to provide land. Ninety percent of the first phase of the project (in the 1970s) was funded with public money.[17] The U.S. Department of Housing and Urban Development estimates that between 1975 and

1981 Baltimore spent 35% of its $296 million in Urban Development Action Grants, Community Block Development Grants and special grants—all HUD monies—on Inner Harbor-related projects.[18]

These projects included public and non-profit facilities such as the Maryland Science Center, the World Trade Center, the Convention Center, and the National Aquarium as well as private-sector projects such the Hyatt Regency Inner Harbor, which was funded primarily by a $10 million Urban Development Action Grant, with the owners investing only $500,000.[19]

The most controversial Inner Harbor project was Harborplace, built with $22 million in private funds by the Rouse Corporation. The original proposal was to build three pavilions of shops and restaurants on land that contained a city park. Many city residents objected to the loss of public space, while businesses in nearby Little Italy and Market Center were concerned that Harborplace would pirate their customers.

A referendum that would have prohibited the Harborplace project was defeated, though community activists did succeed in getting the Rouse Corporation to scale back the project from three to two pavilions.[20]

Harborplace helped to stimulate an Inner Harbor boom in the 1980s. Another reason for the growth were changes in tax policies that allowed accelerated depreciation on commercial real estate. During the 1980s, $1.6 billion was invested in the Inner Harbor on projects such as office buildings, luxury housing and hotels. Ninety percent of this total was private investment, the reverse of the 1970s, when 90% of development funds came from public funds.[21]

Other Development Projects

In 1977, the Greater Baltimore Committee proposed a plan to redevelop the city's historic retail area at Market Center by retaining existing department stores and encouraging new upscale shops to locate in the area. This plan was opposed by small businesses that would be displaced. Despite this opposition, the GBC moved ahead, but it turned out to be difficult to find a private developer.[22] The city drew up a more limited plan for redevelopment around a proposed subway stop, but within several years the project expanded once again. By the mid-1980s, the city had renovated Lexington Market and created pedestrian malls in the area. These efforts, however, did not stop the remaining department stores from closing. Thus, by the late 1980s, the redevelopment focus shifted towards residential development.[23] The Schaefer Administration created the quasi-public Market Center Development Corporation in 1979 to manage West Side redevelopment.

Industrial Development

Despite its heavy focus on tourism and retail, Baltimore did not ignore industrial development. It is difficult to assess the city's industrial development efforts. These initiatives were less glamorous and had less visible results, and as a result have been less studied. Because of these limitations, we focus our analysis on the Baltimore Economic Development Corporation (BEDCO), the economic development corporation in charge of industrial development.

BEDCO was a quasi-public agency created in 1975 to manage the city's $3 million industrial land-banking fund, which packaged land for manufacturing projects throughout the city. This fund had previously been run by the Baltimore Industrial Development Corporation, created in 1965.[24]

Between 1976 and 1986, BEDCO acquired over 500 acres for industrial use, created six city-owned industrial parks (such as Fort Holland Industrial Park and the Seton Business Park), made improvements to older industrial parks and converted vacant factory buildings.[25] BEDCO also ran a business retention program that primarily served large and medium businesses, along with other programs for small and minority businesses.[26]

The economic development corporations that focused on the Inner Harbor/downtown area had much bigger budgets than BEDCO (as well, there were economic development projects that took place outside of any economic development corporation's budget). Our analysis shows that the city appropriated twice as much for tourism, retail or downtown office projects through CCIHM, CCDC or MCDC than it did for BEDCO. From 1976 to 1991, BEDCO projects accounted for one-third of the city's budgeted capital funds; while two-thirds of capital funds went towards CCIHM, CCDC, and MCDC.[27]

Table 1 shows capital appropriations by economic development agency from 1976 to 1991. The budget includes funds from federal and state sources. Table 1 excludes funding from Industrial Development Revenue Bonds (IDRBs.) IDRBs are federally tax-exempt bonds issued on behalf of private companies. These bonds can be used as capital for expansion, and are a useful source of financing because of the low interest rates. We excluded IDRB bonds from this analysis because they are a private liability, not a public appropriation.

Table 1: Capital Budget Dollars Appropriated to Economic Development Corporations Excluding Industrial Development Revenue Bonds (2001 dollars in 000s)

Fiscal Year	BEDCO (Industrial Development)	Percent	CCIHM/CCDC/MCDC (Inner Harbor / West Side / Downtown)	Percent	Total
1976	$ 34,748	19%	$ 145,452	81%	$ 180,200
1977	$ 39,517	21%	$ 149,598	79%	$ 189,115
1978	$ 49,258	100%	$ -	0%	$ 49,258
1979	$ 58,598	41%	$ 84,225	59%	$ 142,822
1980	$ 37,817	35%	$ 71,036	65%	$ 108,853
1981	$ 90,686	61%	$ 57,519	39%	$ 148,204
1982	$ 27,531	27%	$ 75,348	73%	$ 102,878
1983	$ 17,034	39%	$ 26,424	61%	$ 43,458
1984	$ 31,325	16%	$ 168,657	84%	$ 199,982
1985	$ 23,358	21%	$ 88,063	79%	$ 111,421
1986	$ 15,493	12%	$ 117,385	88%	$ 132,878
1987	$ 42,771	42%	$ 59,735	58%	$ 102,506
1988	$ 50,826	46%	$ 58,624	54%	$ 109,450
1989	$ 31,009	35%	$ 58,117	65%	$ 89,126
1990	$ 23,700	41%	$ 34,501	59%	$ 58,200
1991	$ 19,333	60%	$ 12,817	40%	$ 32,149
Total	$ 593,002	33%	$ 1,207,501	67%	$ 1,800,503

Source: Author's analysis of data provided by Dale Thomson, Wayne State University

However, a case can be made for including IDRBs in the analysis. Although the city doesn't pay back the IDRB bonds, the city's credit secures the bonds. If there were a default on the bonds, the city would most likely intervene to avoid a negative impact on its credit rating. IDRBs are a significant source of assistance to businesses in the form of low interest loans (see Table 2.)

Table 2: Industrial Development Revenue Bonds Issued for Economic Development Corporations (2001 dollars in thousands)

Fiscal Year	IDRBs Issued for BEDCO (Industrial Development)	IDRBs Issued for CCIHM/CCDC/MCDC (for Inner Harbor / West Side / Downtown)
1976	$ 73,831	$ -
1977	$ 2,245	$ -
1978	$ 1,707	$ -
1979	$ 79,479	$ 158,560
1980	$ 120,087	$ 78,072
1981	$ 565,440	$ 4,118
1982	$ 641,073	$ 231,484
1983	$ 147,498	$ 17,426
1984	$ 111,640	$ 58,964
1985	$ 162,432	$ 27,009
1986	$ 321,720	$ 3,703
1987	$ 29,175	$ -
1988	$ 19,973	$ 3,118
1989	$ 101,724	$ -
1990	$ 46,716	$ -
1991	$ 5,420	$ 14,738
Total	**$ 2,430,162**	**$ 597,193**

Source: Author's analysis of data provided by Dale Thomson, Wayne State University

The Trustees Program

The most controversial quasi-public agency was the Baltimore City Trustees Loan and Guarantee Program (Trustees), which was created in 1976 and operated by two trustees appointed by the mayor. Its purpose was to package public funds into low-interest loans for redevelopment. The Trustees program primarily provided gap financing when all other sources of public and private funds were exhausted. The program dispersed or guaranteed $426 million for 239 projects between 1976-1986. Forty percent of these funds went towards downtown redevelopment, with most of the remainder going towards middle-class or upscale housing.[28] The program operated with a low public profile until the early 1980s, when it was criticized for poor accounting practices, lack of public disclosure, inadequate oversight, and lack of control by the city council (the mayor had virtually complete control).[29]

In 1986, Mayor Schaefer disbanded the Trustees before launching his campaign for governor, claiming that the program was no longer needed because the city was able to attract private capital. Many commentators speculated, however, that Schaefer wanted to avoid scrutiny during his election campaign.[30]

Late 1980s to late 1990s: The real estate bubble bursts, but more redevelopment downtown

Kurt L. Schmoke was elected Mayor in 1987 and served until 1999. Early in his administration, Schmoke consolidated three agencies -- Charles Center-Inner Harbor Management, Market Center Development Corporation and Baltimore Economic Development Corporation -- into the Baltimore Development Corporation (BDC).[31] Like its predecessors, the BDC is heavily controlled by the mayor and its board is led by private-sector appointees.

In contrast to past economic development efforts, the BDC under Mayor Schmoke was criticized for being more reactive than proactive. However, not all of the blame can be placed on Schmoke's leadership; part of the problem was that the development climate had changed. By the late 1980s, the real estate bubble burst. Federal tax reform in 1986 eliminated many real estate tax shelters, and most cities experienced a glut of downtown office space.[32] By the mid-1990s, Baltimore's downtown office vacancy rate soared to 25%, and the value of downtown property declined 40% from its 1980 peak.[33] Moreover, by the early 1990s, far less federal and state funding was available for redevelopment.[34] The supply of land available for redevelopment had also diminished significantly as a result of earlier development efforts.[35]

During the 1990s, public sector funds again came to dominate Inner Harbor development. Other major redevelopment projects from 1987 to 1999 included:

- Oriole Park at Camden Yards, built in 1992 and financed with more than $200 million in public funds (see Chapter 8);

- Raven's Stadium, built in 1998 and financed with more than $200 million in public funds (see Chapter 8);

- the expansion of the Convention Center in the mid-1990s at a cost of $151 million; and

- Columbus Center, a combination tourist attraction/marine biotechnology center built in 1995 at a cost of $147 million to the public.[36]

In 1999, the city also provided more than $40 million in loans, grants, and tax abatements for the construction of the Marriott Waterfront Hotel (see Chapter 6 for more details). This project continued the city's pattern of providing an average of a 30% subsidy to every downtown hotel built since the late 1970s.[37]

2. The State of Economic Development Today

Many of Baltimore's economic development projects are still clustered around the waterfront and the downtown area. Current initiatives include further development of tourism in the Inner Harbor, apartments in the West Side, and a technology cluster in the "Digital Harbor." The city has budgeted more than $150 million to support economic development in 2002.

Tourism. Tourism continues to be at the forefront of Baltimore's economic development strategy. Over the past decade, and with assistance from the state, the city has continued to finance big-ticket tourist attractions along the waterfront. This year the city has budgeted more than $40 million to build, promote, and operate tourist attractions.[38]

Inner Harbor East. In addition to creating more tourist attractions, the city continues to subsidize office, retail, and hotel development in the Inner Harbor. The focus now is on the east side of the Harbor. The area, which has been described as "one of the best tracts of undeveloped urban waterfront on the East Coast," is eligible for both federal empowerment zone and Maryland enterprise zone benefits[39] (see Chapter 3 for a description of how these programs work.)

Recently completed projects in Inner Harbor East include two Marriott hotels, the headquarters of Sylvan Learning Systems and a Fresh Fields gourmet grocery store. The city has offered tax abatements to the Waterfront Marriott and Lockwood Place, a mixed-use project. The city has budgeted $21 million this year to build a parking lot for Sylvan Ventures, a division of Sylvan Learning Systems.[40]

West Side Revitalization. The city has repeatedly attempted to redevelop the West Side, a neighborhood situated between the Inner Harbor, the central business district and the University of Maryland's Baltimore campus. In the 1970s, the Market Center Development Corporation tried to redevelop the area to retain some of the large department stores along Howard Street. Now, the focus is on transforming the area into a residential neighborhood for university students, professors and young urban professionals.

The most recent iteration of the West Side Revitalization Plan was initiated by the Weinberg Foundation, a non-profit organization that inherited significant amounts of property in the neighborhood from the late developer Harry Weinberg. (During his lifetime, Weinberg repeatedly blocked the city's redevelopment plans by refusing to invest in his properties or cooperate in the redevelopment efforts.) In 1998, the Foundation, along with Orioles' owner Peter Angelos, the University of Maryland, and the BDC, drew up an aggressive action plan to redevelop the West Side. At the top of

the agenda was the city's acquisition and demolition of more than 100 buildings. This plan drew sharp criticism from both small neighborhood businesses and preservationists. The city quickly changed its plans, scaling down the number of structures to be put on the chopping block and creating a fund to compensate dislocated businesses.

Proponents of the West Side plan want to encourage the development of market-rate apartments for middle-to-high income residents. The proposed gentrification of the West Side is part of a larger city strategy to lure suburbanites back to the city. Major elements include the $56 million conversion of the Hippodrome Theatre into a performing arts center, the renovation of Lexington Market, and the construction of Centerpoint, an apartment and retail complex. In addition, the city plans to create more open space and improve public transit in the neighborhood.

The revised West Side Strategic Plan calls for more than $100 million in public investment for infrastructure and large-scale projects.[41] This estimate does not include the tax incentives the city plans to offer developers. The plan estimates the city could lose more than $8 million annually in tax abatements (also known as payments in lieu of taxes or PILOTs.)[42] The Board of Estimates recently authorized a PILOT for Centerpoint, a luxury apartment building in the West Side. This city will forego an estimated $11.4 million in property tax revenue during the 20-year duration of the PILOT.[43] For more on how PILOTs work, see Chapter 3.

The Digital Harbor. This initiative aims to develop a technology cluster in the city, capitalizing on the strength of the area's universities and research centers. The city plans to lure tech companies into Baltimore by encouraging developers to create "cool, affordable" office space for tech firms by investing in open space and infrastructure along the waterfront, and by creating a tech-friendly workforce through investments in education.[44] In November 2000, Mayor Martin O'Malley issued a $300 million ($60 million a year over five years) state funding request to support Digital Harbor projects. The request included:

- $34 million to acquire and renovate properties in the West Side;

- $60 million to shore up bulkheads in the harbor and extend the waterfront promenade; and

- $124 million for street and utility improvements targeted around I-95, the West Side, Fells Point, Locust Point, and the Inner Harbor.[45]

The plan received a chilly response from the state legislature, which approved only $18 million for the first year of the initiative.[46]

Biotechnology Park. In early 2001, the city announced plans to create a biotechnology park in the area north of the Johns Hopkins University Medical campus in East Baltimore. The proposed biotechnology park includes more than 25 acres of office space (the total project, including new and renovated housing, is expected to cover 800 acres). Johns Hopkins has committed to lease at least 30% of the available space. Altogether, the project is projected to cost $800 million; $600 million from private investment, $70-80 million from tax increment financing, $40-50 million from state funds, with the remainder coming from federal funds or foundation funding. (See Chapter 9 for more details.)

Industrial development. Manufacturing projects are the minority of projects currently funded by the BDC. According to the BDC's 2000 annual report, only 7 out of 76 projects were manufacturing related. If distribution centers and port related projects are included, the number of industrial projects increases to 23.[47]

Recently, the BDC has been focusing on industrial areas in the Fairfield area of South Baltimore, the Carroll/Camden Industrial Park (just south of the Raven's stadium) and the Canton area. The city invested $13 million for infrastructure improvements in the Fairfield area,[48] which it reports has attracted $100 million in private investment.[49] In the Carroll/Camden industrial area, the major project was the conversion of the Montgomery Ward building into an office park (with a minor industrial component). The BDC is involved in the Canton industrial area, although the area is doing well without much public investment.[50]

Parking. In 1997, the Downtown Partnership released a report that identified a parking shortage as one of the major impediments to doing business in Baltimore City. The report argued that a lack of parking was forcing companies to relocate to the suburbs. Since that time, the city has committed significant resources to build parking lots downtown. In 1999, the state authorized the city to offer tax abatements for parking lot development. The city has also financed lot construction with parking revenue bonds. In 2000, the city agreed to build a $15.5 million parking lot for Citifinancial as part of a retention deal.[51] (The city also provided $1 million in loans to help the company renovate its offices.)[52] This year the city has budgeted $29 million for parking lot construction.[53]

Empowerment Zone. In 1994 Baltimore was one of six cities chosen to receive funds under the federal Empowerment Zone program. The program operates in three areas of Baltimore: East Baltimore, including Inner Harbor East, Fells Point, and the areas surrounding the Johns Hopkins Medical Center; West Baltimore neighborhoods including Harlem Park, Sandtown-Winchester, Washington Village and Pigtown; and the Fairfield area of South Baltimore. The program is administered by the Empower

Baltimore Management Corporation (EBMC), a quasi-public agency. As of June 2000, EBMC had spent $34 million of the $100 million cash grant.[54]

The four goals of the Empowerment Zone are business development for job creation, workforce development, improving quality of life, and community capacity building.[55] The program seeks to balance the goals of business development, neighborhood development and social programs. However, since there is $250 million budgeted for tax credits for business development, in addition to business-oriented programs paid out of the $100 million cash grant, Empowerment Zone spending leans towards business development.

One business development program is a federal tax credit of up to $3,000 per employee for businesses that hire zone residents. The EMBC also has several loan funds, including a small business loan fund and a Brownfields loan fund. EMBC also provides support and networking opportunities for zone businesses. The EMBC claims to have created 4,800 jobs through its business development programs.[56] EMBC officials admit that although they have succeeded in helping residents find low-paying jobs, they need to do more to get residents into higher-paying jobs.[57]

Workforce development programs include job training, job readiness, literacy and other educational programs. Support services such as transportation or drug treatment programs are also provided for residents. Workforce development programs are required to place workers in jobs paying at least $6.50 an hour.[58]

Quality of life programs include community policing, extended day schools and homeownership programs. The EMBC reports that the homeownership program, which provides grants of up to $5,000 for low- and moderate-income residents, has helped 711 residents become new homeowners.[59]

A range of businesses from a variety of industries have benefited from the Empowerment Zone program. EMBC, for example, has worked with the BDC to develop an industrial park in the Fairfield area, which is a largely underutilized industrial site that contains many brownfield areas. As a result of improvements made by the city, the Fairfield area has attracted $100 million in private investment.[60]

The EMBC also supports small businesses that create relatively good jobs, such as a sign company and an auto body shop. However, Empowerment Zone money also goes towards the city's already heavily subsidized tourism industry, with loans for restaurants such as the Bohagers and Charleston restaurants, and tax credits for the Marriott Waterfront Hotel.[61]

Conclusion

Baltimore's response to the decline of its industrial base has been to focus on the development of office space, retail and housing in the downtown area. The Inner Harbor redevelopment is the most visible and successful of these efforts; other efforts include the city's attempts to revitalize retail and housing in the West Side area near Lexington market. The city has continued a downtown-oriented strategy by devoting significant resources to tourism, parking, the redevelopment of Inner Harbor East and the West Side. The Empowerment Zones have shifted some resources into industrial development and into other areas of the city, although some Empowerment Zone funds do go towards projects in Inner Harbor East (which is included in the Zone). The city's newest major initiative, the proposed Biotechnology Park, is the most significant investment outside of the downtown area. This project could serve to link the areas of East Baltimore and the Inner Harbor/Downtown.

Table 3. Major BDC Projects Approved by the Board of Estimates 1996 – January 2001

Project	Subsidy	Location	Status
DAP, Inc.	Loan	Canton	Complete
Montgomery Park	Loan	Carroll-Camden	Incomplete
Chesapeake Biological Laboratories	Loan	Carroll-Camden	Complete
Legg Mason	Acquired Building	Downtown	Complete
Hippodrome Performing Arts Center	Grant	Downtown	Incomplete
Institute of Human Virology	Grant	Downtown	Complete
International Youth Foundation, Inc.	Grant	Downtown	Complete
Chart House	Ground Lease	Downtown	Incomplete
Columbus Center Parking Garage	Ground Lease	Downtown	Incomplete
200 East Lombard Street Parking Garage	Land Disposition Agreement	Downtown	Incomplete
African American Museum	Land Disposition Agreement	Downtown	Incomplete
Stewarts Building	Land Disposition Agreement	Downtown	Incomplete
213 North Eutaw Street	Land Sale	Downtown	Incomplete
Brokerage/Power Plant Live	Lease Agreement	Downtown	Incomplete
District Chilled Water General Partnership d/b/a Comfort Link	Lease Agreement	Downtown	Complete
Power Plant	Lease Agreement	Downtown	Complete
CitiFinancial	Loan	Downtown	Incomplete
Crown Central Parking Garage	Loan	Downtown	Incomplete
Ernst & Young	Loan	Downtown	Incomplete
World Relief	Loan	Downtown	Incomplete
City Crescent	Loan and Lease Restructuring	Downtown	Incomplete
Sierra Military Health Services, Inc.	Loan w/ Grant Conversion and Lease Guaranty	Downtown	Complete
Harbor Park Parking Garage Expansion	Parking Revenue Bonds	Downtown	Incomplete
CareFirst Blue Cross Blue Shield	Parking Subsidy	Downtown	Complete
Lockwood Place	PILOT	Downtown	Incomplete
Centerpoint	PILOT and Land Disposition Agreement	Downtown	Incomplete
Redwood Tower Apartments	PILOT	Downtown*	Complete
Saval Foods Corporation	Acquired Building	East Baltimore	Complete
ADCOR Industries	Loan	East Baltimore	Incomplete
H & S Bakery / Esskay Site	Loan	East Baltimore	Incomplete
Doracon Contracting, Inc.	Loan w/ Grant Conversion and Land Sale	East Baltimore	Complete
Bank One National Processing Center	Grant and Land Disposition Agreement	East Fayette Street	Complete
Chesapeke Advertising	Loan and Land Disposition Agreement	East Fayette Street	Incomplete
Madison Warehouse	Land Disposition Agreement	Fairfield	Incomplete
Port Liberty	Loan Restructuring and Forgiveness	Fairfield	Complete
Covington View Towers	Land Sale	Federal Hill	Complete

Major BDC Projects Approved by the Board of Estimates 1996 – January 2001 (continued)

Project	Subsidy	Location	Status
Caroline Street Properties	Loan, Parking Assistance, and Land Disposition Agreement	Fells Point	Incomplete
Thames Street Parking Garage	Parking Revenue Bonds	Fells Point	Incomplete
Maryland Casualty Company / Zurich Insurance	PILOT	Hampden	Complete
6100 Seaford LLC	Land Sale	Holabird Business Park	Incomplete
ATCO Rubber Products, Inc.	Land Sale	Holabird Business Park	Complete
H&S Bakery, Inc. (Holabird)	Land Sale	Holabird Business Park	Complete
Guilford Pharmaceuticals	Loan and Land Sale	Holabird Business Park	Complete
Spectera, Inc.	Loan w/ Grant Conversion and Acquired Building	Holabird Business Park	Complete
Sylvan Learning Systems	Loan w/ Grant Conversion	Inner Harbor East	Complete
Baltimore Marriott Waterfront Hotel	PILOT and Loan and Grant	Inner Harbor East*	Complete
Monumental Life Insurance / AEGON USA	Loan w/ Grant Conversion	Midtown	Complete
Associated Jewish Community Federation of Baltimore	Parking Loan Bond	Mount Royal / Midtown	Complete
Advance Bank Headquarters	Land Sale	Seton Business Park	Incomplete
Chimes	Land Sale	Seton Business Park	Incomplete
EBA Engineering, Inc.	Land Sale	Seton Business Park	Complete
JCM Control System	Land Sale	Seton Business Park	Complete
TCI Communications	Land Sale	Seton Business Park	Complete
Agro Business Park	Land Sale	South Baltimore	Incomplete
Met Labs	Land Sale	South Baltimore	Incomplete
Harborview Dock Building #2	PILOT	South Baltimore	Incomplete
Eastern High School (JHU)	Land Sale	Waverly Area	Complete
Dietz & Watson, Inc.	Loan w/ Grant Conversion	West Baltimore	Complete

Source: Baltimore Development Corporation. "Board of Estimates Deals Since January 1, 1996." 2002 and "Tracking Jobs and Taxes for BDC Deals Since January 1, 1996." Memo to Hon. Martin O'Malley, Hon. Sheila Dixon, Hon. Joan M. Pratt, Mr. Thurman W. Zollicoffer, Mr. George Winfield. January 22, 2002.

*The location of this project was not listed in BDC reports. It was determined by independent research.

3. How Baltimore Finances Economic Development

Many of the original Inner Harbor redevelopment and business retention projects were financed with general obligation bonds, revenue bonds and grants from the federal government. As federal funding to cities declined, Baltimore development officials have had to depend more on other sources, most notably tax expenditures (i.e., targeted reductions in taxes to provide incentives). The city offers a number of tax credits and exemptions and has recently received the go-ahead from the state to use tax increment financing (TIF, described below). The following are the key financing tools used by economic development officials to retain and attract companies.

Local Programs

General Obligation and Revenue Bonds. The city has used both general obligation (GO) and revenue bonds to finance some big-ticket urban renewal projects, such as the National Aquarium and the Baltimore Convention Center, as well as parking structures and city-owned industrial and business parks. Such bonds have also financed the city's industrial land acquisition program.

Between 1972 and 1998, the city appropriated approximately $354 million in GO bonds and $208 million in revenue bonds to pay for economic development projects.[62] General obligation bonds are backed by the "full faith and credit" of the city and are paid with tax dollars. GO bonds must be approved by the City Council, the mayor, the city's delegation to the Maryland General Assembly, and a voter referendum. Revenue bonds are not backed by the city’s resources. Rather, they are serviced with a specific source of funds, usually revenues from the project itself (e.g., parking fees or ticket sales). They do not have to be approved by the city's voters.

Land-banking. Under this program, the Baltimore Development Corporation acquires plots of land and consolidates them for sale to companies. The program was originally funded by bonds, but is currently supported by receipts from land sales.

Loans and Grants. The Baltimore Development Corporation frequently provides low-interest loans to companies that are new, expanding, or threatening to relocate outside the city. Companies receiving such assistance are not required by law to create a specified number of jobs, pay their employees a living wage, or provide health care benefits.[63] However, according to a BDC official, the size of the subsidy is often calibrated to reflect the number of jobs the company is expected to create or retain and the number of city residents the company is expected to employ.[64] Job creation requirements are generally only applied to loans that can be converted into grants. In these deals, the loan agreement includes a provision that the company must create a

certain number of jobs before the loan can be converted into a grant.[65] This year the city budgeted $5.5 million for loans to industrial and commercial companies.[66]

Payments in Lieu of Taxes (PILOTs). A PILOT agreement is a tax abatement that allows a developer to pay only a small fraction of his or her property taxes. Under the current law, the developer must pay property taxes on the original value of the land (before redevelopment) and a minimum of 5% of the taxes on improvements to the land. The program is targeted to specific kinds of projects (hotel, office, retail, rental housing, or parking projects) and restricted to specific urban renewal areas, most of which are downtown. These criteria are consistent with the city's plans to boost tourism in the Inner Harbor and attract middle income residents into the city.

All developers seeking PILOTs are required to invest a minimum level of capital, 10% of which must be put up by the developer. In addition, hotel, office and retail projects must create at least 100 full-time jobs. These are requirements of the state PILOT statute. Developers must also comply with the city's requirements regarding the use of minority and women-owned contracting companies.[67] There are no wage requirements for companies that enter into PILOT agreements. The lack of job quality standards is glaring, considering the fact that these agreements are targeted to the hotel and retail industries -- sectors that pay very low wages, use mostly part-time workers, and provide no health insurance. However, the city has required developers receiving PILOTs to sign first-source hiring agreements. Under these agreements, developers are required to work with the mayor's Office of Employment Development to interview city residents first for the new jobs created by the project.

PILOT agreements are usually part of a financing package that is negotiated between companies and the Baltimore Development Corporation. For the most part, these negotiations occur behind closed doors. Before the city can enter into a PILOT agreement, the project must be authorized by an ordinance passed by the City Council. The final terms of the PILOT are determined by the Board of Estimates. Both of these meetings are open to the public. The BDC must provide the Board an economic analysis of the project that includes the financing details, the number of projected jobs, the projected wage rates for those jobs, and the financial necessity for the tax exemption.[68]

PILOT agreements are relatively new to Baltimore. The first economic development PILOT was negotiated between the city and the Baltimore Waterfront Marriott in 1998 and finalized in 1999. The PILOT program may become one of the most costly subsidies that the city can offer businesses. Budget analysts have forecast that the city will forego $2.3 million in property tax revenue this year from the Marriott PILOT alone.[69] (See Chapter 6.) The Board of Estimates has authorized at least five more PILOTs.

Table 4. PILOTs Approved by the Board of Estimates

Project Name	Location	Status
Lockwood Place	Downtown	Project not complete
Redwood Tower Apartments	Downtown	Project complete
Maryland Casualty Company / Zurich Insurance	Hampden	Project complete
Harborview Dock Building #2	South Baltimore	Project not complete
Centerpoint	Downtown	Project not complete
Baltimore Marriott Waterfront Hotel	Inner Harbor East	Project complete

Source: Baltimore Development Corporation, 2002[70]

In addition to property tax losses, PILOTs can also reduce the amount of state aid the city receives. Many types of state aid, including school aid, are distributed on the basis of a city or county's property wealth.[71] Under the PILOT legislation, property that is exempt from taxation by a PILOT agreement is nonetheless included in the state's computation of the city's property wealth. That is, the state overestimates the amount of revenue the city receives from its own property-tax base by failing to account for the revenues foregone from PILOTs. So more PILOTs mean less state aid for schools, libraries, police, and fire and rescue services.

The City's Finance Department analyzed this issue by looking at the impact of five proposed PILOTs on state aid during the third year (the "stabilization year") of the projects' operations. The Department found that these projects would add $161.5 million to the city's assessable property tax base and that this increase in wealth would result in a state aid reduction of $1.3 million in Year Three.[72] Normally, when property values increase, the city makes up for the reduction in state aid by collecting more property taxes on the new development. However, under these PILOT projects, the city would forego $6.7 million in property tax revenue in Year Three.

Tax Increment Financing(TIF). TIF is a financing tool that allows the city to float bonds to finance economic development projects in a designated "development district." These projects could include site preparation and infrastructure improvements. TIF bonds are serviced by capturing new tax dollars (taxes from new development and increased property values) that result in the development district. Once the bonds are paid off, the development district ceases to exist and all tax revenues revert to their normal purposes. Development districts must be designated by an ordinance. The Mayor and City Council must also pass an ordinance before issuing any TIF bonds. Additionally, the new tax revenue used to pay off the bonds must be appropriated each year in the budget process.

While promoting development, TIF could potentially harm the city's schools by diverting a significant portion of property tax revenues away from education. TIF could also reduce state aid in the same way PILOTs do, since property value increases generated by the new development would make the city eligible for less aid under state aid funding formulas.[73]

Tax increment financing is Baltimore's newest development tool. The state originally passed legislation authorizing the city to use TIF in 1994. However, the legislation stipulated that the city had to get voter approval before issuing TIF bonds. Many felt this aspect of the legislation made the program unworkable. In 2000, legislation was passed to allow the city to use TIF without holding a referendum.[74] In 2001, the TIF laws were amended again to allow the city to use TIF to finance the construction of public and private parking garages.[75] The legislation also eliminated the requirement that the development district be a contiguous area.

The City Council recently passed legislation to establish a development district surrounding the Harborview townhouse development on Key Highway. According to the ordinance, property tax revenues from the district will be used to finance the construction of a promenade, bulkheads, and "other related public infrastructure improvements relating to the development of approximately 86 townhomes."[76] The city has authorized the issuance of $8.5 million in bonds to pay for these projects.[77]

State Programs

Enterprise Zones. Maryland enterprise zones target development subsidies to areas that have high levels of unemployment or poverty. Baltimore's five enterprise zones were recently consolidated by the state. Companies located in the zones can receive property tax credits on real property improvements, income tax credits for new employees, and special financing from the state. The costs of property tax credits are shared equally between the local and state governments. Income tax credits are applied to the state's corporate or personal income tax and thus are fully funded by the state. Some enterprise zones are designated focus areas. Property and income tax credits are enhanced in these zones.

Brownfields Program. Under this program, the state provides grants to companies to assess, clean up, and redevelop contaminated work sites. Companies also receive property tax credits on the value of improvements made to the site. These credits are funded equally by the local and state governments.

Loans and Grants. The state also has numerous financing programs. According to an official at the Maryland Department of Business and Economic Development (DBED),

job creation and job quality standards are also written into each loan agreement. (The jobs must pay at least 150% of the federal minimum wage.)[78] Companies that do not meet the job creation and job quality targets in the loan agreements must pay back a portion of the loan. These standards are not required by law and can be waived at the discretion of the agency.

Maryland Heritage Structure Rehabilitation Tax Credit. Under this program, developers can get a state income tax credit valued at 20% of the costs associated with renovating historic buildings. To receive the credit, developers must get the project and applicable costs approved by the Maryland Historic Trust. Many of these projects are also eligible for a federal tax credit valued at 20% of renovation costs. Historic tax credits have become very popular with commercial developers, especially in Baltimore City. In Baltimore, the developers of the American Can Company building received approximately $3.76 million in state historic tax credits.[79] The Atrium, a luxury apartment building in the city's West Side, received $5 million in state and federal historic tax credits.[80] In 1997, the first year of the program, the Maryland Historic Trust approved $7.2 million in tax credits.[81] Last year, that figure skyrocketed to $74 million.[82] The program has become so expensive that the legislature recently capped the credit at $3 million per commercial project.

Federal Programs

Empowerment Zone. Companies located in the empowerment zone are entitled to all of the state enterprise zone subsidies as well as federal tax subsidies. Federal tax incentives include (1) an income tax credit for each zone resident hired (up to $3000 per employee); (2) a $20,000 increase in the expensing deduction for depreciable business property; and (3) a tax-exempt facility bond. The Empowerment Zone also provides training grants to private companies located in the zone.

Industrial Revenue Bonds. In addition to loans and grants, state and local governments can also issue federally tax-exempt bonds on behalf of private companies. These bonds can be used to finance the construction, expansion, or renovation of manufacturing facilities or other specific types of facilities (airports, parking garages, rental housing). The appeal of IRBs for companies is that they provide capital at interest rates well below (usually about 25% below) those on taxable corporate bonds or bank loans. This is made possible by the fact that the interest earned on the bonds is exempt from federal and state taxation.

Community Development Block Grant. The Community Development Block Grant (CDBG) program is administered by the U.S. Department of Housing and Urban Development (HUD). CDBG projects can include housing rehabilitation, public services and facilities,

infrastructure, business finance and commercial revitalization. For private development, CDBG monies can be used to pay for infrastructure improvements leading up to business property. CDBG dollars can fund new sewer lines, water mains, rail spurs, and highway access ramps - all sorts of public improvements around the property to make the facility more functional or enable it to handle more production or traffic. They can also be used to make loans for machinery and equipment, but are used more often for infrastructure. The city has used CDBG funds to finance projects in the West Side Initiative.[83]

4. The Economic Development Decision-Making Process in Baltimore

The following is a description of the process for projects that originate with the Baltimore Development Corporation (BDC). There are other economic development corporations in Baltimore (such as the East Baltimore Development Corporation), but the BDC is the largest.

The mayor's office, the Board of Estimates and the City Council all have influence over the operations of the BDC and the funding of economic development projects. However, as described below, each of these entities has a different level of control over economic development. The mayor has the most control over the operations of the BDC and funding for development projects. The Board of Estimates plays a large role in approving economic development projects, however, the Board is dominated by the mayor. It is composed of the City Comptroller, the President of the City Council, the mayor and two mayoral appointees. The City Council has the least amount of control over the operations of the BDC or the funding of development projects. Its power lies mostly in blocking funding or modifying urban renewal plan amendments.

Setting the Direction for the BDC

The Baltimore Development Corporation is a private non-profit agency that has a contract with the city to initiate and manage economic development projects using government funds. The BDC receives direction on its priorities through the mayor's office, and coordinates with the Deputy Mayor for Economic Development and the Department of Housing and Community Development.[84] The mayor appoints the BDC's Board of Directors. The board then selects the president and chairperson, based on the mayor's recommendations.

Neither the City Council nor the Board of Estimates has any statutory influence over the BDC's personnel. Furthermore, only the Board of Estimates has the ability to approve, reject, or alter the contract with the BDC.[85]

The City Council's primary influence over the scope of the BDC's activities lies in approving, altering or rejecting urban renewal plans and urban renewal amendments.[86] Urban renewal plans define where the BDC can do development projects and set conditions on aspects of development such as requirements for public participation. Urban renewal plans have two public hearings: one with the Planning Commission and the other with the City Council.

For the most part, the City Council has accepted the BDC's proposed urban renewal plans. In some instances where there was controversy, the City Council altered the original plan as submitted by the BDC. For instance, the Market Center Urban

Renewal Plan amendments in 1999 were altered after public debate before the Planning Commission and City Council.[87] However, the City Council only made these changes to the urban renewal amendments with the agreement of the BDC and the Planning Commission.

Budget Process

Under the supervision of the mayor, the Finance Department drafts the operating budget of the BDC, and the Planning Commission drafts the capital budget for economic development. The budget is then approved by the Board of Estimates before it goes to the City Council. The City Council can then modify the budgets by cutting funds (it cannot add funds). Supplemental appropriations follow a similar procedure.

The City Council can influence the BDC by cutting the BDC's operating budget. It is possible for the City Council to use such a threat as leverage in negotiating with the BDC. There is precedent for this: in FY1990, the City Council cut the Charles Center Inner Harbor Management Corporation's (CCIHM) budget in order to send the message that it was unhappy with the CCIHM's closed process.[88] However, the City Council votes only on the entire BDC budget, not on specific line items, so it cannot cut funds for particular projects.

Project Specific Financing

General Obligation and Revenue Bonds are used for large projects like tourist facilities and business parks. The mayor's office issues requests for these bonds to the Board of Estimates. If the Board approves the request, it must next be approved by the Baltimore delegation to the Maryland General Assembly (this is pro forma; most requests are approved with little debate).[89] Next, the City Council has to authorize General Obligation bonds to go to a referendum and has to pass an ordinance to enact a revenue bond. The City Council rarely rejects bond requests.[90] The City Council doesn't know which developers will get the contract to do the work funded through these bonds. The Board of Estimates approves these contracts based on the recommendations of the BDC.

The BDC's board approves all loans and PILOT agreements before they are brought before the Board of Estimates or the City Council. Before a subsidy package gets approved by the BDC board, it is reviewed by BDC staff and an internal committee. The review includes an analysis of:

- whether the project would be feasible without the subsidies;

- whether the project would provide public benefits;

- the costs of the city's investment (including all subsidies); and

- the city's return on this investment (i.e. the difference between the revenues from new jobs and increased property values and the costs of the subsidies.)[91]

Sometimes outside consultants are hired to analyze a specific market (such as the hotel or office building market) to determine whether the private sector could support such development without government intervention or assistance.[92]

Once a subsidy has been approved by the BDC Board, it gets reviewed by city officials. Loans and grants go before the Board of Finance before they go before the Board of Estimates for final approval.[93] PILOTs go to the city's Finance Department.[94] The bill authorizing the PILOT is submitted to the City Council as an administration bill. PILOT bills are also reviewed by the Planning Commission.[95] If the City Council approves the general economic terms of the PILOT, the BDC negotiates the exact terms, and the Board of Estimates approves the terms.[96]

Opportunities for Citizen Participation

The Board of Estimates, the Board of Finance and the City Council are required to give seven days notice of all hearings on economic development projects.[97] The BDC submits a memo along with the Board's agenda that describes the project.[98] This notice, however, is insufficient for the public to digest the information and comment on the projects.

Critique of the process

Most decisions on economic development projects are made before the proposal gets to a public hearing. The BDC negotiates the terms of deals before it presents them to the Board of Estimates. The only elected official who has any influence over these negotiations is the mayor (through his appointees). By the time the Board of Estimates holds a public hearing, most decisions have already been made. The next opportunity for debate comes at the Planning Commission and City Council hearings. However, the City Council holds the least amount of influence over changing the terms of economic development projects; its power lies mostly in holding up deals in order to negotiate with the BDC. There are only few instances where the City Council has made significant changes to the terms originally presented by the BDC, and those changes usually have come with the eventual agreement of the BDC.

5. An Evaluation of Baltimore's Economic Development Strategy

Baltimore's promotion of tourism and commercial downtown redevelopment is a common approach among older industrial cities. This strategy developed, in part, as a response to the devolution of federal government responsibilities. During the 1980s the Reagan Administration scaled back or eliminated urban programs aimed at helping cities cope with suburbanization and deindustrialization. For example, funding for public subsidized housing was reduced by 60%, Community Development Corporation funding was cut by 40%, Head Start funding was reduced by 35%, and the Office of Economic Opportunity was eliminated.[99] At the same time, cities were encouraged to use public-sector funds to leverage private-sector investment. A publication by the Reagan Administration stated that cities should "concentrate on increasing their attractiveness to potential investors, residents and visitors."[100]

A key aspect of this new economic development strategy was tourism. Faced with economic decline, older industrial cities decided to use their history and architecture to attract visitors and their dollars.[101] This required the creation of a "tourist bubble," a fantasy city where the problems of the urban poor were kept out of view.[102]

The other main facet of this economic development philosophy is what Marc Levine has called a "corporate center strategy," a focus on attracting corporate headquarters, related business services (banking, management consulting, accounting, advertising, law), and housing and retail establishments for the employees of these businesses in the downtown area. The expected benefits of this strategy include: 1) a good business climate downtown; 2) the creation of jobs and an increased tax base; 3) a ripple effect in which benefits spill into other neighborhoods; and 4) the creation of office space and infrastructure to attract the advanced service sector, whose "agglomeration tendencies" require centralized locations.[103]

There is no doubt that Baltimore has been successful at employing the tourism strategy. The Inner Harbor and the "Baltimore Renaissance" are often cited as models of downtown revitalization. Baltimore is now the 16th largest tourist destination in the country, and visitors to the city increased 36.7% between 1992 and 1997.[104] The city estimates that visitors to Baltimore spent $2.67 billion in 1997.[105] And despite the departure of several large firms in recent years (such as the law firm Piper and Marbury and the insurance company USF&G), the downtown area still has low vacancy rates for newer, Class A office space, although the vacancy rates for older, Class B office space have been climbing.[106]

The real question, however, in evaluating Baltimore's economic development efforts is whether the city has achieved its goals of creating good jobs and increasing tax revenue to benefit the residents of Baltimore.

Jobs

The downtown area has definitely seen an increase in jobs. Between 1970 and 1995, employment downtown grew by 80%. In fact, all of the city's net job growth since the 1970s has been in the downtown area, with the bulk of this in tourism-related jobs.[107]

Baltimore put a greater emphasis on creating jobs than on ensuring that the jobs created were good quality jobs. Without job quality standards related to pay, benefits or career mobility, a large majority of tourism jobs are not family-supporting jobs. This is especially true in cities like Baltimore, where most tourism jobs are not unionized.

Non-unionized tourism jobs are frequently part time and usually lack health insurance and other benefits. In Baltimore, typical tourism jobs -- such as waiters, janitors, cashiers, and food service workers -- pay about 46% of the average city wage (see Table 5). All but three of these job categories pay, on average, less than the federal poverty line for a family of four ($17,650 per year in 2001).

On the other hand, unionized tourism jobs are more likely to provide employees with family supporting wages and benefits. A recent study by the Working for America Institute found that unionized hotel employees earn 17% more than those not in unions and are half as likely as non-unionized employees to work less than 35 hours per week. The study also found that hotel workers in cities with high rates of unionization earn 16% more than workers in other parts of the country.[108]

Many of the jobs created through the corporate center strategy are also poor quality, due to the "barbell" income profile of this sector. There are few occupational ladders or middle-income jobs to bridge the gap between highly paid professionals and the service workers who support them.[109] In addition, financial service companies operate in national, regional and even international markets, so there are few linkages to small- and medium-sized local firms.[110] Furthermore, many city jobs are held by non-city residents; in 1990, only of 51% Baltimore's workers also lived in the city.[111]

Baltimore had less luck in retaining industrial jobs. Industrial jobs tend to offer higher wages to blue collar workers than service jobs. Manufacturing workers in Baltimore earned an average of $14.50 in 2001.[112] The city claims to have retained or added about 40,000 industrial jobs between 1976 and 1986 through its economic development programs.[113] Data from the Census Bureau, however, indicate that

Baltimore lost over 63,000 manufacturing jobs between 1970 and 1990, with another 16,000 jobs lost between 1990 and 1999.[114]

Table 5. Average Wages for Non-managerial Tourism Jobs in Baltimore, 2001

	Average wage	Annual salary for average hours worked in occupation	Percent of poverty-line for a family of four
Amusement and Recreation Attendants	$ 8.10	$ 11,667	66%
Baggage Porters and Bellhops	$ 7.40	$ 14,007	79%
Bartenders	$ 8.60	$ 13,237	75%
Cashiers	$ 7.80	$ 11,762	67%
Concierges	$ 8.20	$ 13,176	75%
Cooks, Restaurant	$ 10.40	$ 18,171	103%
Counter and Rental Clerks	$ 9.10	$ 14,243	81%
Counter Attendants	$ 7.80	$ 11,762	67%
Dishwashers	$ 7.40	$ 10,120	57%
Food Preparation and Service Workers	$ 7.70	$ 11,892	67%
Janitors and Cleaners	$ 7.90	$ 13,269	75%
Maids and Housekeeping Cleaners	$ 8.10	$ 14,531	82%
Parking Lot Attendants	$ 7.40	$ 12,352	70%
Security Guard	$ 10.30	$ 18,318	104%
Tour Guide	$ 12.40	$ 19,473	110%
Ushers, Lobby Attendants and Ticket Takers	$ 6.80	$ 6,506	37%
Waiters and Waitresses	$ 7.10	$ 9,931	56%
Average Tourism Job	$ 8.38	$ 13,201	75%
All Occupations	$ 18.40	$ 34,253	194%

Source: Maryland Occupational Wages for Baltimore City (average wages) and National Compensation Survey (average hours) 2001

It is difficult to assess whether Baltimore could have retained more manufacturing jobs if it devoted more resources to industrial development. Many factors contributing to de-industrialization are beyond the city's control. However, it can be argued that Baltimore's economic development efforts would have done more

to alleviate poverty if job quality standards had been attached to the new tourism jobs that replaced manufacturing jobs.

Job Quality Standards

Baltimore's incentive programs have not made meaningful use of job quality standards. Currently, there are no laws on the books that require companies receiving city subsidies to pay a certain wage or benefit level. There are no wage or health care requirements attached to either BDC loans or PILOT agreements. The city has started to tie economic development subsidies to its first-source-hiring and minority and women-owned business contracting initiatives.[115]

Tax Revenue

The corporate center and tourist strategy has brought an increase in tax revenue to the city. Real estate tax revenue in the central business district more than tripled between 1976 and 1987, in inflation-adjusted dollars.[116] Of course, the tax revenue brought in through tourism and the downtown business districts has to be weighed against the amount of money the city invested in these sectors. According to a study conducted in 1986, Baltimore spent $17 million more each year on maintaining the Inner Harbor and downtown area than it generated in property tax revenue from these districts.[117] Furthermore, Baltimore has invested $2 billion in building and maintaining tourist facilities since the 1970s and has spent hundreds of millions more in subsidies to tourism-related businesses.[118]

The state's investment in Camden Yards illustrates how what might seem like a good investment actually costs more than it brings in. One study estimated that while Camden Yards generates approximately $3 million for Maryland in jobs created and spending by out of state residents, the cost to the state's taxpayers is $14 million a year in inflation-adjusted interest and the depreciation of the stadium.[119] The Raven's Stadium stacks up worse. The annual economic benefit to the state of $1.4 million costs Maryland taxpayers $18 million.[120] (For more on the stadiums, see Chapter 8.)

Building a tourist sector is not a one-time expense. In addition to maintenance and infrastructure costs for existing attractions, tourism requires constant re-investment in new facilities to remain competitive with other cities pursuing their own tourism strategies.[121] Furthermore, the city is often last in line to get a return on its investment in tourist-industry businesses. A 1992 study found that $60 million in redevelopment loans distributed by the city for 50 projects since the 1970s remain unpaid.[122] One third of the loans in bad standing were for hotels such as the Omni Hotel, the Belvedere Hotel, the Lord Baltimore Hotel, and Harrison's Pier 5. Other projects include apartments, shopping malls, and industrial facilities. Some of the

debtors have gone bankrupt. Others, like the Omni Hotel, are operational, but have not generated enough revenue to trigger their repayments under the terms of their loan agreements with the city.[123]

Contrary to the city's claims, funds from tourism are not all reinvested back into the community. As discussed below, a portion of the tax revenue generated from some downtown hotels is earmarked to pay for the Convention Center. Furthermore, during the heyday of Baltimore's "Renaissance" under the Schaefer Administration, the city increased spending on economic development by 400%. At the same time, the city cut spending on education and social welfare by 25%.[124]

Lack of public participation in economic development strategies

Much of Baltimore's economic development has been done at the urging of or with the participation of downtown business leaders. As a result, the city's economic development plans have emphasized downtown real estate development. Economic development corporations occasionally sought the input of neighborhood residents that would be directly affected by proposals for projects in their neighborhood, such as industrial parks.[125] For the most part, however, the city has not sought input from the general population regarding its economic development plans. The boards of most economic development corporations have consisted of representatives of government or the downtown business community, not citizens' groups or unions.[126]

In contrast to the way the Planning Department staff involves the community in neighborhood planning, the public is typically not made aware of downtown development plans until they are presented to the City Council or Board of Estimates. While opponents sometimes try to use City Council or Planning Commission hearings to challenge proposed development, significant modifications of plans are rare.[127] In addition, few City Council members have been willing to go to great lengths to oppose or modify economic development proposals not related to their district. One reason for this is that when a City Council member has challenged economic development proposals from the mayor's office, the mayor has threatened to hold up projects in the member's district.[128]

There were two exceptions to this lack of input. Twice the city convened task forces on economic development that included representatives of citizens groups as well as government and business. These task forces met for a limited period of time in order to produce recommendations for the city. The Overall Economic Development Committee (OEDC) was convened by the Baltimore Economic Development Corporation in 1974. This committee developed a plan for using special funds from the U.S. Economic Development Administration, but it had little influence after issuing an initial report.[129] In 1989, Mayor Schmoke convened the Downtown Advisory

Committee.[130] The Committee focused on downtown development, with no mention of the quality of jobs created.[131] Furthermore, once this task force released its report, there were no mechanisms to make sure the plans were implemented.[132]

Monitoring, Enforcement and Disclosure in Subsidy Programs

The Baltimore Development Corporation makes an effort to monitor PILOT, loan and grant agreements. The organization recently conducted a review of 29 of the major subsidies deals since 1996 for the Board of Estimates. This report included information on the number of jobs created or retained, the number of city residents employed in these jobs, and the increase in city tax revenues from each project. All in all, the companies exceeded the BDC's job creation projections by 15%. About half of these jobs went to city residents. However, this analysis did not include information on the value of each of the subsidies given, the range of wages paid by each company or whether the jobs provided health care benefits.

Each year the BDC verifies that PILOT recipients have met the job creation requirements spelled out in the law. For loans, the BDC actively monitors job creation outcomes when job creation standards are a provision of the loan. In most cases, job creation requirements only apply to loans that can be converted into grants. If a company does not meet that requirement, then the conversion does not go forward. The BDC does not enforce loan provisions with clawbacks (money back guarantee language that would require a company to pay back a portion of the subsidy if it fell short of the agreement.)[133]

The Baltimore Development Corporation is exempt from the Maryland open records act. Disclosure is voluntary and can be waived by the agency. Most of the negotiations between the BDC and companies occur behind closed doors, effectively precluding citizen input while deals are actually shaped. The details of the subsidy packages are not released until they go before the City Council or the Board of Estimates.

6. Case Study: The Baltimore Waterfront Marriott

The first payment-in-lieu-of-taxes (PILOT) agreement negotiated between the city and a private company generated a great deal of controversy, including a lawsuit, a state legislative fight, and the rewriting of the PILOT legislation.

In 1999, the city entered into a PILOT with local developer John Paterakis to construct a 750-room Marriott hotel on the east side of the Inner Harbor. According to the city's own estimates, the PILOT will cost the city $2.3 million in lost property tax revenue in 2002 and more than $30 million over the 25-year duration of the agreement.[134]

The hotel deal originated in 1996, soon after the Maryland Stadium Authority had completed its $150 million expansion of the Baltimore City Convention Center. The city and state had originally undertaken the project to help Baltimore compete against Philadelphia and Washington, DC for large conventions. Convention center boosters argued that the project would result in $340 million in convention-related spending each year that would generate more than $30 million in state and local revenue.[135] However, once the project was completed, convention center bookings fell far short of the projections originally used to justify the expansion. Rather than reexamining the assumptions behind the original projections, Baltimore officials decided that the convention center was losing business because the city did not have enough hotel rooms to handle large events.

In 1996, the city asked the Legg Mason Realty Group to study Baltimore's hotel market. The resulting report concluded that the city needed about 1,200 more hotel rooms to satisfy the new demands for space created by the convention center expansion. However, the study, which assumed that the convention center would be fully booked,[136] ignored the fact that demand for convention center space was relatively flat in the 1990s.[137] Creating more hotel rooms would not solve this problem, but plans for the Inner Harbor hotel went ahead nonetheless.

In 1997, the Baltimore Development Corporation asked developers to submit proposals for the hotel, promising that public subsidies would be provided. Several established developers entered the competition, but the BDC awarded the project to John Paterakis, the owner of a local bakery empire. Paterakis proposed to build a Wyndham hotel on the east side of the Inner Harbor. Many observers were surprised by this decision. The Paterakis site -- which was not even considered in the Legg Mason study -- was over a mile from the convention center, well beyond walking distance.[138] Paterakis proposed some unconventional solutions to this problem involving aerial cable cars, people movers and water taxis, but many observers

remained skeptical. George Williams, the state tourism director, told a reporter: "There's no way in creation anybody could call this site a convention hotel."[139]

Some state legislators were not pleased about the selection of the Inner Harbor East project as the convention center hotel. Delegate Pete Rawlings argued that the project would turn the convention center into a "white elephant."[140] He threatened to cut off funding for other city programs if Mayor Schmoke requested state financing for the hotel.[141] The city quickly withdrew its request for $10 million in state subsidies for the project.[142]

Many speculated that Paterakis was awarded the project as a payback for his generous contributions to state and local political campaigns. During the previous three years, Paterakis had given more than $30,000 to Maryland politicians, including about $10,000 to Schmoke.[143] Others speculated that Schmoke and Paterakis planned to turn the Inner Harbor East hotel into a casino if the state's gambling laws were relaxed.

Schmoke responded to the criticisms by proposing the construction of a second hotel closer to the convention center. The city awarded exclusive negotiating privileges on a site adjacent to Camden Yards to Peter Angelos, a prominent lawyer and owner of the Orioles. Angelos proposed to build a $150 million Grand Hyatt on the city-owned site.

However, some critics believed that the market could not support two new hotels. Joseph Cronyn, who had worked on the original Legg Mason study, said "No way, there's simply not the market for the two of them...The only question is which one of the new hotels would take the real hit."[144] The Angelos deal foundered after the developer was unable to finalize an agreement with Hyatt to operate the hotel. The BDC has continued to entertain developers' proposals for convention center hotels and has even considered financing a city-owned hotel.[145]

Despite all of the criticism, city officials continued to negotiate a subsidy package with Paterakis. In July 1998, the Board of Estimates approved a subsidy package totaling more than $50 million that included tax increment financing bonds, parking revenue bonds, and city loans and grants. This package was reconfigured a number of times in response to political and citizen objections to the subsidies. City officials decided against using TIF bonds because at that time, all TIF projects needed to be approved by a city-wide referendum. Schmoke had planned to ask the General Assembly to waive this requirement, but the Attorney General's Office ruled that the Assembly did not have the authority to do that. (The state's TIF legislation was amended in 2000 to allow Baltimore City to use TIF without voter approval.) Parking bonds were eliminated from the package after several members of the city council,

including then-Councilman Martin O'Malley, threatened to withdraw their support from the project.[146]

Ultimately, city officials decided to negotiate a PILOT deal with Paterakis. Under the terms of the agreement, the developer would pay only $1 per year in taxes on the property for the next twenty-five years.[147] In April 1998, the City Council approved a subsidy package that included the PILOT and $10 million in grants and loans.

However, there was a legal problem with the PILOT agreement. According to the state enabling law, the city could negotiate PILOTs only with companies located on city-owned land. Paterakis had owned the Inner Harbor East site since 1986. To satisfy this provision, the city agreed to purchase the property for a token fee of $10 with the understanding that Paterakis would be able to buy back the land for that price at any time.[148]

In November 1998, Circuit Judge Richard T. Rombro struck down the ordinance enabling the PILOT, ruling that the city did not legally own the property and thus could not authorize the PILOT. The city responded by filing an appeal and submitting new PILOT legislation to the General Assembly. In the meantime, construction, which had begun in June, continued.

Ultimately, city officials and the Inner Harbor East developers prevailed. New PILOT legislation was written that allowed the city to grant tax breaks to downtown hotels, office buildings, apartment buildings and parking lots. The legislation contained some stricter language than the city's original ordinance. Developers would have to pay full taxes on the original value of the land plus at least of 5% of the incremental increase in taxes resulting from any improvements made to the property. Paterakis's project, however, was grandfathered by the bill and is only required to pay taxes on the original value of the land ($38,683 per year).[149]

The city also won its appeal of Judge Rombro's verdict. However, while the city was appealing its case, Wyndham bowed out of the project and was replaced by Marriott as the hotel operator. The Marriott Waterfront Hotel opened its doors in February 2001.

Project Costs

PILOT. The BDC projected that the city will forego $30.4 million during the twenty-five year duration of the PILOT.[150] This estimate is expressed in current dollars (net present value.) The face value of the subsidy has been estimated to be more than $80 million.[151]

Effect on State Aid. The state distributes various types of aid based upon the taxable value of property in the city. Under the PILOT legislation, these projects are included in the state's assessment of the city's property tax base even though the city won't be fully taxing the land. That means less state aid for the city's schools, libraries, police, and fire and rescue services.

Loans and Grants. In addition to the PILOT, the Inner Harbor East Hotel was awarded a $5 million loan and a $5 million grant. The loan carries a 2% interest rate.[152]

Empowerment Zone Credits. The hotel is located in a federal empowerment zone, making Marriott eligible for a federal corporate income tax credit for each employee who lives and works in the zone. The value of each credit equals 20% of the employee's wages up to a maximum of $3,000 (20% of the first $15,000 of annual income.) The BDC estimates that 243 of the hotel's employees are empowerment zone residents. If we assume that each of these employees earns at least $15,000, then Marriott would be receiving $729,000 in federal income tax credits.

Enterprise Zone Credits. The Marriott can also qualify for income tax credits under the state enterprise zone program. The company can claim a $1,000 credit for each new full-time employee (35 hours per week) who earns at least 150% of the federal minimum wage (i.e. $7.73 per hour). If the employee is certified as "economically disadvantaged," the company can claim $3,000 per employee. However, without specific information on the hours and wages of each of the hotel's employees, we cannot estimate the value of this subsidy.

Empowerment Zone Training Grant. The Marriott also received a $500,000 training grant from the Empowerment Zone.

All told, the Baltimore Waterfront Marriott will receive more than $36 million in subsidies from the local, state, and federal governments or $56,000 per job.

Tax Revenues

Supporters of the deal have argued that the project will generate additional revenue for the city. The BDC estimates the city will collect $2.3 million in hotel taxes from the Marriott in its fifth year of operation. Much of that revenue, however, will be used to pay off the convention center debt and promote tourism. In the 2002 budget, the city has earmarked 26% of the hotel tax revenue to support the convention center debt.[153] Additionally, state law requires that the city appropriate 40% of all hotel tax revenue for convention center marketing and tourism promotion. As a result, most of the hotel tax receipts generated by the Marriott will be recycled back into tourism promotion (which is in effect another subsidy).

Costs of Marriott Subsidies	
Hotel PILOT:	$24.6 million
Parking Lot PILOT:	$5.8 million
City Grant:	$5 million
Empowerment Zone Credits:	$.7 million
Empowerment Zone Training Grant	$.5 million
Total Subsidies:	$36.6 million
Jobs Created (as of 8/01):	652
Subsidy per Job:	$56,179

Outcomes

The city and the developer signed a first-source hiring agreement to ensure that city residents were given the first shot at interviews. Two months before opening, the Marriott held a job fair for prospective employees. During the first week, the fair was open only to city and community workforce development providers and their clients. During the second week, the fair was open to the general public.[154] The city's efforts paid off. As of August 1, 2001, 79% of the Marriott's 652 jobs had gone to city residents.[155] More than a third of the jobs were filled by empowerment zone residents.[156]

The jobs paid on average $20,000 per employee (113% of the 2001 federal poverty guidelines for family of four).[157] At that income level, a family of four would qualify for food stamps, the state Children's Health Insurance Program, and the federal earned income tax credit.[158] Additionally, this average includes both hourly and salaried employees. Given what we know about hotel wages in Baltimore City, many of the Marriott's employees probably earn less than $20,000 per year.

7. Case Study: Additional Payments in Lieu of Taxes (PILOT) Deals

The passage of the amended PILOT legislation has opened the door for more subsidized downtown development. The Board of Estimates has approved at least five more PILOTs since it approved the Marriott deal (see Table 4). Here are the details of two of the more significant deals.

Lockwood Place

On December 2, 1999, the city council passed an ordinance authorizing the Board of Estimates to enter into a PILOT agreement with Lockwood Associates for a mixed-use facility on the eastern end of the Inner Harbor that would include an office tower, a retail facility, a 250-room hotel, and a parking lot. The PILOT, which would apply only to the office tower and parking garage, was approved by the Board of Estimates on July 18, 2001. Under the PILOT, the project is eligible for up to $1.5 million in annual property tax breaks for 20 years. The Baltimore Development Corporation estimates that the city will forego $15 million in property taxes over the term of the PILOT.[159]

According to the BDC, the development of the Lockwood project is part of a larger business retention strategy. In the late 1990s, the market for office space was tight in Baltimore–vacancy rates were at 5%–and businesses that wanted to expand had few options. The BDC argued that creating more office space would encourage existing businesses to remain downtown.[160] However, a number of developers rushed to build more office space downtown and the demand for space has decreased. During the past year, construction began on an 18-story office tower at 750 East Pratt Street; 180,000 square feet of office space was completed in Inner Harbor East; and several other developers announced plans to build office towers downtown.[161] Some experts are now predicting a glut in office space. According to David Fick, a managing director at Legg Mason Wood Walker Inc., "There are folks out there that are getting financing that shouldn't...There's no justification for a new Class A building downtown in Baltimore in the next three to five years."[162]

Even with the subsidies, the future of the Lockwood Place project is in question. The developers, who previously dropped the hotel from the plans, recently put the retail section on hold until 2003.[163] The construction of the office tower, which was originally slated to break ground last spring, has been put off indefinitely.[164]

The project was originally projected to create 1,173 permanent jobs. However, almost half of these jobs were connected to the hotel and retail sections. The BDC has predicted, however, that only 30% of the office jobs will go to Baltimore residents.[165]

With a projected 611 office jobs, the $15 million PILOT subsidy would come to nearly $25,000 per job.

Centerpoint

In June 1999, the BDC asked developers to submit proposals to transform a square block on the West Side into a mixed-use development. The site, located directly across the street from the Hippodrome Theatre, would be at the epicenter of the city's West Side initiative. In December 1999, the BDC awarded exclusive negotiating privileges to Centerpoint Development, LLC, a joint venture between Bank of America and the Harold A. Dawson Company. The developers proposed to build 370 housing units, 58,000 square feet of retail space, and 450 parking spaces. The project consisted of a mix of new construction and renovation of existing buildings on the site.

To make room for all of this development, the city began buying up the property on the block and relocating more than 20 small businesses. By October 2001, the city had spent $12.1 million to acquire the properties and $1.6 million in relocation costs.[166] On October 3, the city agreed to sell the land to the Centerpoint developers for only $4.9 million. The next day, the City Council authorized a PILOT agreement for the developer. The BDC estimated that the city would forego $11.4 million during the 20-year duration of the PILOT.[167] In addition to these subsidies, the project will also receive $3.8 million in state and federal historic tax credits, a $1.5 million loan from the state, and a $1 million city grant for infrastructure improvements.[168] The land subsidy, PILOT, tax credits, and grant total $25 million.

The BDC estimates that the project will attract 354 new residents into Baltimore and create 190 full-time permanent jobs, so that the average subsidy per job or resident would be almost $46,000. Seventy per cent of those jobs are projected to go to city residents.[169] The project will use first-source hiring to try to match city residents with the new jobs.[170]

8. Case Study: The Orioles and Ravens Deals

The Ravens and Orioles stadiums at Camden Yards are two of the largest economic development projects in the state's history, costing taxpayers more than $500 million. While it's clear that both teams have profited from the subsidies, the economic and fiscal returns to city and state taxpayers have been negligible.

History

The push for the Camden Yards stadiums began in 1984–almost immediately after the Baltimore Colts moved to Indianapolis. After losing the Colts, Mayor William Donald Schaefer made it his personal mission to bring another NFL team to the city and to prevent the departure of the Orioles. A task force concluded that the city needed to build both a football and a baseball stadium to accomplish these goals. Since the city could not afford to take on such projects, Schaefer sought help from the state.

The following year the state legislature created the Maryland Stadium Authority. The MSA was given the power to sell bonds backed by amusement taxes collected at sports facilities. However, these funds alone would not support construction of the new stadiums.[171] The real push for funding came after Schaefer was elected governor in 1986.

In 1987, Schaefer convinced the legislature to authorize the MSA to issue up to $235 million in revenue bonds to construct both a baseball and a football stadium at Camden Yards ($85 million for land acquisition, $70 million for a baseball stadium, and $80 million for a football stadium).[172] The bonds were conditioned on each team's signing a long-term lease with the Stadium Authority. The debt service on the bonds would be supported by amusement taxes, two new sports-themed lottery games, and a $1 million annual contribution from the city of Baltimore. Ultimately the bonds would be backed by the taxing power of the state.[173]

The Orioles' Nest

A year after the stadium financing was approved, the Orioles signed a 15-year lease with the MSA. When the legislature originally authorized the project, construction costs were estimated at $62 million.[174] In 1989, the MSA upped the estimate to $105 million in response to team demands for more expensive facilities.[175] As one Oriole official put it, "We don't drive Yugos, and we really don't want to play in a Yugo."[176] The team was quite pleased with the new stadium. Oriole Park opened in 1992. That same year, the team signed a 30-year lease, guaranteeing fans another three decades of baseball in Baltimore.

Construction costs for Oriole Park totaled $106 million, with the owners of the team contributing $9 million.[177] The MSA spent $99 million acquiring the land and preparing the site for both stadiums.[178] Another $18.6 million was spent relocating train tracks and refurbishing Camden Station.[179] The city and the federal government spent a combined $48.2 million on roadwork around the site.[180] That's $208.6 million in upfront subsidies before the interest costs on the bonds.

Oriole Park Subsidies

50% of Land Acquisition and Site Preparation	$44.5 million
Construction Costs	$97 million*
Train tracks / Camden Station	$18.6 million
Roadwork	$48.2 million
Light Rail Station	$0.3 million
Total	**$208.6 million**

*$9 million Oriole contribution was subtracted from the construction costs

Fiscal and Economic Impact

Most experts who have studied publicly financed stadiums agree they are not good deals for cities. Oriole Park is no exception to this rule. In the book *Sports, Jobs, and Taxes*, Bruce Hamilton and Peter Kahn calculated the new ballpark brings in $3 million each year in additional tax revenue as a result of fan spending both inside and outside the ballpark, while the state incurs $14 million annually in operating and capital costs.[181]

The Orioles have clearly benefited from the new ballpark. According to Hamilton and Kahn, gate receipts and other revenues increased an average of $25.5 million annually as a result of the move.[182] The value of the team also increased dramatically since the ballpark opened in 1992. In 1989, Eli Jacobs purchased the team for $70 million.[183] Four years later, the team was sold to Peter Angelos and a group of investors for $173 million.[184]

The Ravens Roost

While the Orioles were settling into their new home, the MSA was struggling to attract another NFL franchise. Originally, Governor Schaefer and the MSA staked their hopes on getting a new team when the league expanded in 1993, but Baltimore lost out to Sunbelt locations such as Charlotte and Jacksonville.

After the expansion effort failed, state officials began actively recruiting other teams. While several teams openly flirted with Baltimore, none actually committed. After Parris Glendening was elected governor, state officials changed tactics. The new administration decided to place a time limit on the state's stadium funding and keep all of the negotiations secret.[185] Any team that wanted to move to Baltimore would have to commit to the deal quickly and quietly.

Around that time, Cleveland Browns owner Art Modell was trying to get the city of Cleveland to pay for stadium renovations. However, having just built a new baseball park and a new basketball arena, Cleveland couldn't afford to pay for another sports venue. Modell began privately negotiating with the Maryland Stadium Authority in the summer of 1995 and signed a lease the following October. The ensuing uproar in Cleveland forced him to give up the Browns name.

Modell, whose team was renamed the Ravens, got a sweet deal in Baltimore. The state agreed to build a $200 million stadium and maintain a fund for continuing improvements.[186] While the new stadium was being built, the team was allowed to use Memorial Stadium–which was refurbished at a cost of $2 million–free of charge.[187]

At the new stadium, the Ravens would cover the stadium's operating costs (about $4 million a year) rather than paying rent.[188] The team would keep all of the profits from concessions, parking, tickets and advertising during games, as well as half the profits from non-NFL events held there. Additionally, Modell was able to keep up to $75 million in revenue from the sale of personal seat licenses (PSL)–a new gimmick that allows season ticket holders to "own" a particular seat in the stadium.[189]

Maryland legislators were not pleased with this deal. While the state was negotiating with the Browns, Glendening had also promised the Washington Redskins $73 million in highway and infrastructure improvements for their new stadium in Laurel.[190] Some legislators feared the two sports projects would divert needed funds away from school construction. A flurry of legislation was introduced to either block the Baltimore stadium or require Modell to put more of his own money into the project. Even though the state had already signed a lease with Modell, the Maryland Attorney General argued that the lease was contingent on the availability of state revenue and hence the legislature could still try to block the project.

In an effort to soften legislative opposition, Modell agreed to reimburse the Stadium Authority $24 million. This agreement was signed into law along with a provision that the MSA transfer $2.4 million per year for ten years into a school construction fund. Under the law, the team had thirty years to make the $24 million payment. Over time, however, the real value of that payment will decrease dramatically with inflation. Hence, the stadium authority agreed that the team would pay only $10 million upfront and $2 million during the remaining thirty-year period.

Ravens Stadium Subsidies

50% of Land Acquisition and Site Preparation	$44.5 million
Stadium Construction	$217 million*
Light Rail	$5 million**
Personal Seat Licenses	$75 million
Naming Rights	$69.5.5 million***
Lease Savings on Training Facility	$1 million****
Memorial Stadium Upgrade	$ 2 million
Total	**$414 million**

*Final construction costs minus $12 million team contribution.
**Costs minus $1 million team contribution.
***Team paid $10 million for rights that sold for $79.5 million.
****Team leased city-owned training from city for $1 per year for five years. City Comptroller Joan Pratt estimates the market value of the facility is $200,000 per year.

Once construction began, the stadium's construction budget got squeezed by cost overruns and lottery shortfalls. To make up for these losses, the Authority sold the naming rights of the stadium to the Ravens for $10 million in 1997. This deal enabled the MSA to avoid going back to a hostile legislature to ask for more money. The team was able to sell the name rights to PSInet for $79.5 million.[191]

Construction was completed in 1998 at a cost of $229 million.[192] The state also financed a light rail station for the new stadium at a cost of $6 million.[193] The Ravens contributed $1 million toward the station and about $12 million to the project through the payment mentioned in the preceding paragraph.[194]

Soon after Modell agreed to move his team to Baltimore, the Orioles cried foul. The Orioles had a clause in their lease that guaranteed the team parity with any deal struck between the MSA and a football team. The Orioles claimed that the Ravens had been given a better deal and filed suit against the Stadium Authority. An arbitration panel ruled in favor of the Orioles. Under the ruling, the MSA had to give the team the naming rights to the ballpark and contribute $10 million toward improvements.[195]

Economic and Fiscal Impact

The impact of the football stadium on the Maryland economy is unclear. In 1998, the Department of Business and Economic Development (DBED) estimated that team and fan spending would create 2,730 new jobs and generate $11.3 million in additional state and local tax revenue.[196] An analysis done by the Department of Legislative Services (DLS), however, estimated that team and fan spending would result in only 889 jobs and $7.7 million in state and local tax revenue.[197]

What accounted for this dramatic difference in opinion? The DLS argued that DBED exaggerated the ripple effects of team and fan spending. DLS used lower multipliers to account for the fact that many of the jobs created by the stadium were seasonal and low-paying. Additionally, DLS argued that not all fan spending was necessarily new spending, since some local fans would have spent their money elsewhere in the area had the stadium not been built.

Currently, the state is spending approximately $20 million each year to pay off the debt on the two stadiums.[198] A look at the Stadium Authority's budget shows that total expenditures on both the football and baseball stadiums exceeded revenues from those venues by $21.3 million in 2001 (see Table 6.)[199] The MSA used $22 million in lottery proceeds and the $1 million annual contribution from the City of Baltimore to offset these losses.[200] At the end of FY2001, the stadium budget showed a $4.1 million negative balance, down from $5.8 million the previous year.[201]

A close examination of the Baltimore stadium deals demonstrates that the benefits of these projects do not outweigh the costs. More important is the opportunity cost of not investing taxpayer dollars in education, transportation or other programs that could yield more positive economic outcomes.

Table 6. Maryland Stadium Authority Financing Fund FY 2001

Beginning Balance	-$5,769,000
Revenues	
Admissions Tax	$7,075,000
Baseball Rent	$7,109,000
Other Baseball Stadium Income	$1,406,000
Football Maintenance Payments	$6,219,000
Other Football Stadium Income	$554,000
Warehouse and Camden Station Revenue	$2,920,000
Other Income	-$584,000
Total Revenues	**$24,699,000**
Expenses	
MSA Operating Expenses	$2,629,000
Camden Yards Facilities Operations	$15,573,000
Equipment Leases	$3,534,000
Stadium Improvement Fund	$400,000
Capital Expenditures	$1,292,000
Debt Service and Financing Costs	$20,264,000
School Construction Fund Payment	$2,400,000
Total Uses	**$46, 092,000**
Revenues minus Expenses	**-$21,393,000**
Additional Financing	
City of Baltimore Payment (for Debt Service)	$1,000,000
Lottery Proceeds	$22,000,000
Ending Balance	**-$4,162,000**

Source: Department of Legislative Services

9. Case Study: East Baltimore Biotechnology Park

In January 2001, Mayor Martin O'Malley announced that the city was considering building a biotechnology park north of the Johns Hopkins University Medical Center. The city and the Historic East Baltimore Community Action Coalition (HEBCAC), an organization funded by the city, state and Johns Hopkins University, had been attempting for several years to revitalize the East Baltimore neighborhoods north of Hopkins. The city and HEBCAC came to the conclusion that the neighborhood needed a major project to anchor redevelopment efforts. At the same time, the University expressed interest in a new biotechnology facility. With funding from local foundations, the city hired Urban Design Associates to develop a plan for a biotech park and revitalization of surrounding areas.

The proposed biotech park will lease space to companies that are developing new products from medical research, such as drugs or medical devices. The tenants of the park will include a mix of start-ups and established biotech companies.[202] The park is also expected to include firms that provide supplies and services to biotech research companies. It is unclear at this time whether tenants will also include biotech manufacturing facilities.[203]

The biotech park will provide "incubator" services, such as business advice and in kind services, to its tenants. Johns Hopkins Medicine has agreed to provide start-ups with assistance through its Technology Transfer Office and give them access to the Hopkins intranet, library and databases. Hopkins has also agreed to try to recruit start-up companies seeking to develop Hopkins' technology to locate in the biotech park.[204]

Currently, the proposed biotechnology park is projected to cover 25 acres (the total redevelopment project, including new and renovated housing, is expected to cover 80 to100 acres).[205] Assuming a growth rate of 5% for the biotech industry throughout Maryland, the industry will need 3.3 million additional square feet of space in 5 years. The proposed park would meet approximately two-thirds of that demand.[206]

In addition to the biotech park, the project will also involve substantial changes to the neighborhood, including demolition, rehabilitation, new housing construction, and major street-scaping. The plans include 1,000 new and rehabilitated housing units, with apartments renting for $450 to 1,450 a month and houses selling in the range of $115,000 to 225,000.[207] The city also plans to provide 7,000 new parking spaces. Public transportation, such as a new Metro or MARC commuter rail stop, is not included in the project's budget, but is included in other plans by the city and state.

Project Costs

The total project costs are currently projected to be $800 million.[208] While the private sector is expected to invest $600 million, the project will also require significant public investment. The city plans to use a Tax Increment Financing (TIF) bond to fund $70 to 80 million of the project (Chapter 3 for a description of TIF). Thirty million dollars will come from the value of newly assembled parcels of land owned by the city. The city will use $15 million of funding from HUD's Section 108 Loan Guarantee Program, and expects to receive $40 to $50 million in state funding. The remainder will come from other federal or private foundation sources. Businesses that locate in the park are also likely to be eligible for other state corporate income tax credits that promote high-tech businesses.[209]

The city is seeking $2.5 million from Baltimore foundations (including Johns Hopkins Medicine) to provide initial operating support for a new non-profit quasi-public economic development corporation that will be responsible for assembling parcels, preparing sites, and recruiting private-sector developers.[210] The project will be overseen by the East Baltimore Development Corporation, a non-profit organization. The first eight members of the board have been selected; three were selected by the city, one by the state, two by Hopkins and two by East Baltimore elected officials. These eight members chose the remaining three members. Joseph Haskins, Jr., the chairman and CEO of Harbor Bank of Maryland will chair the corporation.[211]

Approximately 300 homeowners, 500 renters and 100 small businesses will be relocated to accommodate the changes. The area also includes 1,000 vacant buildings and lots. The city owns 290 of the properties included in the area, and Johns Hopkins University owns 96 of the properties.[212]

Project Benefits

One of the major potential benefits to city residents from the proposed project is the creation of new jobs. The city forecasts that 8,000 new jobs will be created over 10 years.[213] This projection is based on the number of workers per square foot for biotechnology office space, assuming 100% occupancy of the park. Based on information from other biotech parks, the city expects that one third of the new jobs will require an advanced degree, one third will require a college degree, and one third will require a high school diploma or GED with additional training.[214] The project includes $10 million for job training for people without college degrees. Part of this training will be provided by the Biotechnical Institute of Maryland, an organization that trains laboratory technicians and whose graduates earn from $22,000 to $25,000.[215]

However, the city may well be overestimating the number of jobs that will be created. First, supporting biotech can be a risky venture, and the park might not achieve the 100% occupancy rate the city projects, thus reducing the number of jobs created. As Johns Hopkins University researchers Feldman and Ronzio note, biotech is "still at an early stage of its development and there are many competing hypotheses about its future."[216] Biotech parks are risky investments for private companies; facilities are expensive to build because they require sophisticated space, and the potential tenants are companies with little or no credit history.[217] These inherent risks are why governments step in to finance biotech parks.

Second, although Maryland is in a good position to attract biotech companies, Baltimore City has not proven able to compete with other areas in the state. The Mid-Atlantic area encompassing Maryland, Virginia and the District of Columbia has the third largest concentration of biotech companies in the country. Using a narrow definition of biotech, there were 102 such firms in Maryland in 1996, with 2,389 employees.[218] Using a more expansive definition that includes biotech suppliers and support services, there were 260 biotech companies with 16,000 employees in Maryland in 2001.[219] Baltimore City will have to compete with Montgomery County, where the majority of Maryland's biotech firms are located. In 1996, Baltimore City had 7 biotechnology firms, with 218 employees.[220]

Third, any success Baltimore has in attracting biotech companies may not result in the large number jobs for city residents that the city projects. A recent study, for example, found that less than a third of the workforce of three large Baltimore biotech companies that received city subsidies were city residents.[221] In some cases, biotech parks have proven to be a good investment for local residents. The University City Science Center in Philadelphia, one of the oldest and most successful business incubators, has created 7,000 jobs over 30 years, and 75% of the companies have stayed in the city.[222] In other cases, however, biotech parks have not benefited city residents. Twenty years after New Haven, Connecticut created its Science Park center, only 400 biotech jobs have located within the city, falling far short of the original goal of 1,809 jobs. Over 700 biotech jobs have left the city, as successful companies have expanded in other locations.[223]

The city is also likely to be over-estimating the number of new jobs that will be filled by workers with a high school diploma or GED and training. Companies in the earlier stages of development, like those expected to be tenants of the park, mostly hire workers with higher levels of education. An executive of one biotech company stated: "You start at the PhD level, then move to bachelor's level, then to junior college level, and you do on-the-job training. That's the typical evolutionary pattern of biotech companies."[224] During the incubation phase, when the product is being developed, companies rely on a university's expertise and hire a small number of well-educated

workers, often using university faculty and students as consultants. Next, the company will spend years scaling up the product and getting government approval. It usually takes 10 years to bring a product to market.[225] Typically, only after the product is brought to market does the company expand hiring to include significant employment of production, technical, clerical and maintenance jobs, the positions that draw on workers with less education.[226]

As a result, fewer jobs are likely to go to residents with no more than a high school diploma or GED than the city estimates. A Connecticut study found that only 12% of the state's biotech workforce had less than a bachelor's degree.[227] Maryland biotech industry experts confirm that a similar proportion of existing biotech workers in the state have less than a four-year college education.[228] Furthermore, there are no guarantees that the biotech park tenants will recruit workers from the neighborhoods surrounding the park. Companies may have trouble finding local residents to fill jobs that require only a high school education; only 39% of residents in the surrounding East Baltimore neighborhoods have a high school degree or higher,[229] and the on-time high school graduation rate for the city is 40%.[230] Thus, jobs will not go to East Baltimore residents, as the city claims, without an investment by the city in GED programs.

Because the largest number of jobs—especially for lower skilled workers—are created during the manufacturing stage, it is crucial that the city retain firms when they bring a product to market. However, as Feldman and Ronzio point out, biotechnology firms often start up near major universities, but don't necessarily conduct their manufacturing operations there.[231] Feldman and Ronzio found evidence of interstate competition for biotech manufacturing; half of the Maryland biotech firms they surveyed had been contacted by other states offering them incentives to relocate their bio-manufacturing plants.[232] New Haven's Science Park experience shows that in some cases companies leave the city when they get to the manufacturing stage. When companies located in the Science Park became profitable, they left the city and expanded in other areas.[233] A recent study by the Brookings Institution's Center on Urban and Metropolitan Policy also reports that once a company succeeds in commercializing a drug, it often licenses it to a pharmaceutical company to manufacture it. This means that biotech start-ups don't create many jobs in the cities where they are located; instead, these jobs go where the drug factories are located.[234]

The city also claims that an increased tax base from the development project will benefit city residents. However, because the project will be funded with a TIF bond, new property tax revenue generated from the project will not go to the city's general fund, but will instead be diverted to repay the bond.

Although Johns Hopkins University claims it didn't initiate the plans for the biotech park,[235] it is clear the university will benefit from the project. The biotech park

will allow Johns Hopkins to expand its already large bioscience research activities and provide an opportunity for university-affiliated biotech spin-off companies. Hopkins is the biggest recipient of government-funded research in biomedical science in the country; the University receives over $500 million per year in research funds for the School of Medicine, School of Public Health, and the School of Nursing combined.[236] In fiscal year 2001, the University received over $7.5 million in royalties from license agreements with biotech companies.[237] More than 30 start-up companies have been created using Hopkins technology; about half of the companies are located in Maryland, about one third in Baltimore City.[238]

Other Incentives for Biotechnology Companies in Maryland

Biotechnology is a priority for many states because it is a growing industry with the potential for creating good paying jobs. Maryland's investment in the biotech industry has come primarily in the form of incubator programs such as the Bard Laboratories (Baltimore), UMBC Technology Incubator Center (Baltimore), Maryland Technology Development Center (Rockville) and the Technology Advancement Program (College Park). The Maryland Industrial Development Finance Authority has provided funds for biotech companies for developing facilities and scaling-up products to the manufacturing stage.[239] Maryland has also supported seed or venture funds that can invest in bioscience projects, although none specifically targets the industry.[240] Maryland is considering creating a state-supported venture fund for bioscience. This year, the state legislature is considering two proposals to create tax credits for bioscience (two similar bills failed in previous years).[241]

Maryland has a competitive advantage over many other states because the National Institutes of Health, other federal agencies, and major research universities are located within the state. However, Maryland must still compete with other states for biotech companies. In 1995, for example, Maryland gave MedImmune, a Bethesda-based company, $43 million in incentives to discourage the company from relocating its headquarters and 219 employees to Ohio (a cost of $54,000 a job).[242]

Policy Options

Feldman and Ronzio found that company-specific incentives for biotech play only a marginal role in retaining companies, and caution the state against engaging in bidding wars with other states to compete for individual companies.[243] They recommend that the state instead focus on creating a supportive environment so that companies won't want to relocate once they reach the manufacturing stage.

As proposed, the city's biotech park does not focus on attracting specific companies, but instead seeks to create a good climate for biotech companies in

general. However, to maximize the likelihood that the city and its residents will reap the greatest benefits, Baltimore could:

- invest in education to enable more city residents for employment in biotech;
- invest in infrastructure in order to attract and retain biotech companies, especially when they reach the manufacturing stage;
- require companies that receive incubation services to remain in the city once they grow and reach the manufacturing stage;
- give priority to companies that provide jobs for less-educated workers;
- attach first source hiring agreements to any firm-specific incentives so that city residents get the first chance to qualify for biotech jobs;
- limit the use of TIF bonds in funding the project, so that funds are not diverted from the general fund; and
- require Johns Hopkins University and other universities that benefit from the park to contribute a share of their royalties and licensing fees back to the city, perhaps earmarking them for the school system and other education programs.

The biotech park is a long-term investment that likely won't bring payoffs for 10 to 20 years.

10. Conclusion

Baltimore's massive investment in the Inner Harbor and downtown reveals a recurring history of high costs, low benefits, and a lack of safeguards to ensure that taxpayer investments really pay off in family-wage jobs and an enhanced tax base. Unlike most states and many big cities, Baltimore has no job quality standards, or laws requiring subsidized companies to pay a certain wage or to provide healthcare. The pattern is especially troubling today, because instead of federal or state dollars to finance development deals, the city increasingly employs local tax expenditures – TIF and PILOTS – which mean foregone future revenues for education, infrastructure and other public services.

Baltimore development efforts are also marred by pervasive *process* problems. Baltimore's privatized system for initiating deals – through the Baltimore Development Corporation (BDC) – affords taxpayers no opportunity for input as deals are shaped, and often only perfunctory chances to analyze or comment before they are formally authorized by the Board of Estimates or the City Council. The BDC's records are secret, exempted from the Maryland Public Information Act. More broadly, citizen organizations have few meaningful ways to engage in and influence long-term priority-setting. Citizen participation is also discouraged by budget reporting systems that make the city's economic development spending difficult to discern.

To address the shortcomings found in our analysis, we offer policy options:

Enhance Public Participation. The city can enhance public participation in the economic development process in several ways:

- Reducing the Board of Estimates, which approves most economic development subsidies, to its three elected officials (the Mayor, the Comptroller, and the City Council President);

- Requiring that a public hearing be held to discuss each proposed subsidy with notice given at least 30 days in advance of the hearing. Information on the deal would also be made available to the public 30 days in advance. This information would include the location and scope of the project, the value of the subsidy, the projected jobs created or retained by the project, the projected wage and benefit levels of the jobs, the projected tax revenues, an analysis that explains why the subsidy is necessary and any other relevant economic analyses performed by the economic development agency;

- Maintaining a mailing list and e-mail list for notifying any interested parties of such hearings; and

Institutionalize Community Input. Baltimore can achieve more public input into its economic development strategy by including more representatives from community and labor organizations on the boards of the city's economic development agencies. These boards would discuss the balance of industries targeted for economic development assistance as well as the quality of jobs being created by companies seeking assistance.

Track and Report Outcomes. The city and taxpayers can track and evaluate economic development efforts more effectively by:

- Requiring every subsidized company to submit an annual report on the number and quality of jobs created, including the range of wages paid, whether the jobs are full-time or part-time and any benefits provided (especially health care);

- Verifying the job and wage data submitted against unemployment insurance records to ensure accurate reporting;

- Making these reports readily available to the public so citizens can monitor the benefits as wells as the costs; and

- Having the Baltimore City Comptroller do a performance audit of the BDC that pays particular attention to the issues of wages and benefits.

Publish a Unified Economic Development Budget. In addition to company-specific reporting, the mayor's office could publish a unified economic development budget each year to show costs of each type of subsidy awarded by the city and economic development agencies like the Baltimore Development Corporation. Such a budget would include on-budget spending, such as loans, grants, and infrastructure, as well as off-budget spending, such as PILOTs, TIF and tax credits. The budget could also compile outcomes in terms of jobs created and wages and benefits paid.

End the BDC's Privilege of Secrecy. Making the records of the Baltimore Development Corporation subject to Maryland's Public Information Act would be consistent with prevailing norms concerning open records and good government. While records are routinely withheld during active negotiations, once a deal is formally proposed, records of such negotiations are usually public information.

Adopt Job Quality Standards. An ordinance requiring job quality standards for every development subsidy would be consistent with the city's pioneering living wage law.

Wage standards could be pegged to that law; however, market-based standards (i.e., average city wages or average industry wages) with a poverty floor would be more consistent with the intent of economic development. A mandate for healthcare insurance would avoid the hidden taxpayer costs of employees at subsidized companies relying on Medicaid.

Adopt Clawbacks – or recapture requirements that call for pro-rated refunds if a company misses job creation or wage requirements after two years.

Cap TIF and PILOT Property-Tax Costs. To control the harm to education and other public services, the city could set a cap of one or two percent of its property tax base that could be captured by either program. This way the city can balance its goals of economic growth and quality service provision.

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