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# Baltimore City Vacant Property Strategy

*Preliminary Findings – City of Baltimore / BUILD / GBC*

December 2023

In July 2023, Mayor Brandon M. Scott, the Greater Baltimore Committee (GBC), and Baltimoreans United in Leadership Development (BUILD) committed to forge a plan for transformative and equitable economic development in neighborhoods with high rates of vacant and abandoned properties. To support this collaboration, PFM Group Consulting LLC and its affiliate, PFM Financial Advisors LLC (collectively, PFM) were engaged to provide financial and economic analysis, working in tandem with the law firm of Ballard Spahr LLP.

PFM Financial Advisors LLC advises states, cities, and a broad range of public sector and nonprofit entities on capital and financial planning and debt management and is a registered municipal advisor with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. PFM Group Consulting LLC also focuses on the public sector, with services including long-range budget planning, tax and revenue policy, and economic and fiscal impact analysis for some of the nation's largest governments.

In our work on Baltimore's vacant property strategy to date, three key areas of broad consensus among Mayor Scott, GBC, and BUILD have emerged:

- ***Transformative impact*** will require unprecedented levels of investment – with a minimum of $3.0 billion in public and philanthropic dollars leveraging nearly $5.0 billion in direct private investment, and potentially more as neighborhood-level housing markets stabilize and strengthen.

- This $3.0 billion of public capital represents ***investment, not just spending***, that will generate substantial returns and pay for itself over time through measurable economic benefits for the city, state, and region. These returns include long-term, large-scale, and positive contributions to the tax base from transforming vacant properties into new and rehabilitated homes, as well as the accompanying population and business growth. These returns also include the immeasurable benefits of creating stronger, safer, healthier, more affordable, and more equitable communities.

- This transformative investment will require ***sustained focus*** for at least 15 years and patience as communities and local housing markets rebuild.

Further, while this initiative builds on approaches already underway and proven to be effective by the City Department of Housing and Community Development (DHCD), BUILD, and other community groups, this investment is at a wholly different scale. It will spark a new redevelopment industry in Baltimore and will require innovative approaches and tools.

To inform the development of this strategy, over the past three months, PFM has reviewed plans and financial analysis from key experts and stakeholders engaged in this work. This has included direct engagement with the authors of multiple, detailed reports to better understand key estimates and assumptions. This effort integrates the work of those foundational analyses to help identify potential paths forward.

Plans and financial analyses reviewed included those developed by:

- Baltimore City / DHCD
- czbLLC's *Whole Blocks, Whole City* Report and Analysis, prepared for BUILD
- MuniCap, Inc. evaluation of innovative tax increment financing (TIF) approaches
- CohnReznick evaluation of TIF structures
- Johns Hopkins 21st Century Cities Initiative, *The Costs of Baltimore's Vacant Housing*
- Econsult Solutions *The Power of Residential Growth,* for the Baltimore Development Corporation

Based on this review and collaborative stakeholder input, PFM developed models for investment and a menu of potential revenues at the scale required for transformative impact.

## I. Investing for Transformative Impact

Over a 15-year period, this collaboration has identified at least $3.0 billion in public and philanthropic dollars that could potentially be generated from the following sources:

- Issuing non-contiguous tax increment financing (TIF) bonds in a series of tranches for specific vacant houses and areas. If successful, this innovative approach is expected to generate at least $150 million over 15 years.
- Reactivating the City's Industrial Development Authority (IDA), which can generate $150 million in public investment over 15 years. This existing tool provides a flexible mechanism for accelerating locally sourced funds.
- Seeking $900 million in state housing funding over 15 years.
- Requesting a new revenue stream, such as a local share of state sales tax receipts from Baltimore City, which could be used to leverage as much as $1.5 billion over 15 years.
- Generating $300 million in social impact bonds and other creative private or philanthropic investments to support this work over the next 15 years.

As the program advances over the 15-year period, there will be lessons learned and results demonstrated to inform mid-course adjustments to continuously target investment to meet program goals without eroding other critical public services. If the return-on-investment to the State and City exceeds program costs, a greater portion of the proceeds could potentially be dedicated to expanding investment while maintaining a fiscally responsible approach.

Alternatively, if the housing market takes longer than expected to generate a return, or revenues otherwise fall short of expectations, the development program and funding plan could be rebalanced through the thoughtful application of financing tools in tandem with sound, long-range budget planning. With TIF and IDA bonds to be issued in tranches over time, for example, both timing and sizing can be adjusted to manage risk and optimize investment.

## II. Potential Return on Investment

To inform iterative investment and policy decisions, PFM has developed a flexible financial model to project the potential scale of investment and the associated fiscal impacts over time. This model draws on assumptions grounded in past research and current market analysis. Within the model, which is designed to consider alternative timeframes and scenarios, current investment assumptions are linked to a plan to bring the "whole blocks" strategy to scale through investment in a minimum of 37,500 properties. This whole blocks strategy includes home renovation and infill construction, grants for basic repairs to stabilize existing homes, cleaning and greening vacant lots, and renewal of neighborhood infrastructure such as sidewalks and utilities. Along with assumptions about public and private investment, the model also estimates the impact on state and local government revenues as well as population growth.

*Return-on-Investment Projections*

Based on the analysis outlined above, our preliminary findings include the following:

- **Over 15 to 20 years – and beyond – this work would have significant impacts on local and state revenue.** Some of these impacts will be structural – enduring for the long-term as a result of increased taxes that will accrue to Baltimore City and the state from bringing vacant and abandoned properties back to productive use, stabilizing population and strengthening the regional economy. Other revenue impacts are assumed to be more limited in duration – such as those resulting from the significant increase in construction spending and other economic activity that will be generated directly by this work. Of note, our model only accounts for the fiscal impact of construction activity during the 15-year program period. To the extent that reinvestment continue at higher levels beyond this period due to improvements in the housing market sparked by this work, such additional gains would be over and above our current estimates.

- **This public and philanthropic investment can more than pay for itself in public revenue generated.** Based on current market assumptions and program concepts, which are expected to evolve with further community and stakeholder engagement, we project nearly ***$3.5 billion*** *in additional, total revenue for Baltimore City and the State of Maryland over 20 years*, as well as significant fiscal benefits for surrounding Maryland counties from growth in regional employment and economic activity. This total includes over $2.2 billion in revenue for the City and more than $1.2 billion for the State. As the impacts continue to accrue over 30 years, a period consistent with the term for housing bonds issued in other major cities, the total gains would increase to nearly $7.4 billion – almost $5.1 billion for the City and over $2.3 billion for the State. And with an upward shift in the city's trajectory, positive fiscal impacts would continue well beyond that timeframe.

At the same time, this projection of additional revenue does not take into account the significant, additional loss in revenue for both the City and the State of Maryland if Baltimore were to continue on its current trajectory of population loss and economic erosion related to vacant and abandoned housing over that same time period, nor have we quantified social impacts. As the recent Johns Hopkins study noted:

> *"The true cost of disinvestment and decline in the physical attributes of a city is far more than direct spending on maintenance and lost tax revenue, but these are the measurable aspects of vacancy. The broader costs to communities in terms of lost residents, public health impacts, and heightened crime are less measurable but very real."*

*Prior Studies and Empirical Results*

In addition to our review of past studies of vacant property impacts and insights from current housing market participants, PFM's return on investment assumptions are also grounded in the experience of other Mid-Atlantic cities that have successfully reversed their population losses, and the results already achieved in Baltimore through investment in communities such as Greenmount West and Oliver.

As of November 1, 2023, Baltimore had 13,739 reported vacant building notices (VBNs), down meaningfully from 16,813 in 2018, but still eroding neighborhood quality of life and home values across roughly half the city's blocks. In parallel, Baltimore's population continues to decline, now below 600,000 after being above 700,000 in the early 1990's and over 900,000 in 1970.

If by 2040, however, the number of vacant properties in Baltimore could be dramatically reduced to the low thousands with population stabilizing and beginning to grow – as other Mid-Atlantic cities have achieved (and as Baltimore-specific opportunities, such as Tech Hub designation, can help drive) the impact would be dramatic.

**Resident Population Trends 1990 – 2020**

| | Baltimore | D.C. | Philadelphia |
|---|---|---|---|
| **1990** | 736,014 | 606,900 | 1,585,577 |
| **2000** | 648,654 | 572,059 | 1,517,550 |
| **2010** | 620,961 | 601,723 | 1,526,006 |
| **2020** | 583,132 | 689,545 | 1,603,799 |

From a narrow fiscal impact perspective alone, we would see:

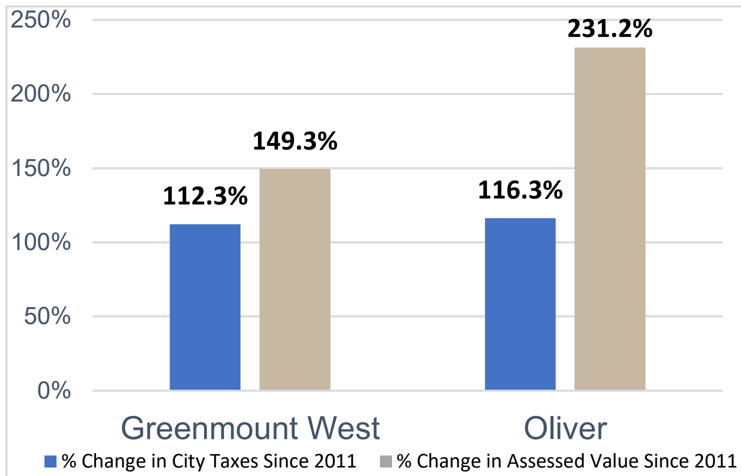
- Increased state and local real estate property and transfer tax bases;
- Increased state and local income tax bases;
- Additional local tax base increases, notably for energy and telecommunications taxes;
- Additional state tax base increases, such as for sales and business taxes;
- Reduced local expenditures for vacant property maintenance and demolition;
- 15 years of economic and fiscal impact from expanded construction and redevelopment activity to bring this initiative to scale, which could also potentially carry forward as reinvestment patterns stabilize and strengthen.

A September 2022 research report by Johns Hopkins 21st Century Cities Initiative – "*The Costs of Baltimore's Vacant Housing"* – estimated that vacant properties cost the City alone nearly $100 million in foregone real estate and income tax revenue annually, while also eroding the water utility rate base and driving large areas of expenditure. Similarly, an August 2020 study by Econsult Solutions for the Baltimore Development Corporation, *"The Power of Residential Growth,"* quantified the impacts of reversing population decline and spurring the addition of 26,500 households over a five-year period through new construction and renovation. Under this specific set of assumptions, which included the large-scale economic benefits from increased construction activity and an analysis of State revenues, Econsult Solutions projected tax gains of over $100 million for the City and more than $170 million for the State.

Philadelphia's experience following population stabilization provides a further, empirical "reality check" on the feasibility of fiscal returns where population losses reverse and start to show even modest gains. A 2020 study by Philadelphia's Center City District, *"Investing the Proceeds of Growth,"* found that City spending grew in inflation-adjusted dollars from $4.71 billion to $5.94

billion over the preceding 20 years. Looking just at the decade between 2009 and 2019, Philadelphia's population increased by 34,875. While significantly slower than growth in some other cities such as the District of Columbia, even these modest gains of only a cumulative 2.25% allowed the Philadelphia City budget to move from managed decline to increased investment in services. Although multiple factors contributed to this turnaround, and Baltimore and Philadelphia have meaningfully different scales and tax structures, the two cities share a history of post-manufacturing economic decline, rowhome housing stock, high concentrations of poverty, and strong "eds and meds" economic bases. Both cities have also seen their regions increase in population even as the city populations declined. A key difference financially is that Philadelphia's population decline has turned upward over the past two decades while Baltimore's has not.

Among successful community efforts led by a range of Baltimore organizations across city neighborhoods, a partnership between the City, the State, BUILD, and ReBUILD Metro in East Baltimore further illustrates the positive tax impacts of redevelopment in Baltimore. Over more than two decades, 608 vacant properties have been redeveloped with more than $125 million in public and private investment, sparking significant fiscal returns.




Since 2011, the property tax bases in Greenmount West and Oliver have each more than doubled. Although varying results across other communities indicate that transformation takes time and experiences will not be uniform, the results to date in Greenmount West and Oliver provide empirical support for the economic potential of vacancy reduction if brought to scale.

## III. Need and Mechanisms for a Sustained Focus

PFM Financial Advisors LLC, supported by Ballard Spahr LLP for legal analysis, also worked with the City, BUILD, and GBC project team, as well as with national and local experts, to evaluate use of an existing financing vehicle such the Maryland Stadium Authority or Maryland Economic Development Corporation -- and/or creation of a new special purpose entity – as part of the overall strategy.

Potential advantages identified with this approach include:

- Improved marketability and interest rates for certain bonds issued, particularly at this scale.
- Consistency and stability across the service of multiple Mayors and City Councils overseeing a program spanning more than a decade, to increase confidence of investors and to ensure continuity of this long-term work over the 15 years.