

Mayor's Tax Credit Workgroup

Brownfields Tax Credit

January 28, 2025



Brandon M. Scott
Mayor

Today's Agenda

-  **Enterprise Zone Recap / Update** *(15 mins)*
-  **Brownfields Tax Credit** *(60 mins)*
-  **Tax Credit Combinations & Policy Options** *(30 mins)*
-  **Future Schedule Proposal** *(15 mins)*

Workgroup Schedule

Homeowner Protection Tax Credits

- March 26 1 ✓ Homestead Tax Credit
- April 30 2 ✓ Targeted Homeowners Tax Credit
- June 11 3 ✓ State Homeowners Tax Credit / City Supplemental

Development Tax Credits

- July 30 1 ✓ Intro to Development Tax Credits
- Aug 27 2 ✓ Newly Constructed Tax Credit
- Sept 26 3 ✓ Historic (CHAP) Tax Credit
- Oct 22 4 ✓ High-Performance Market-Rate Rental Housing Tax Credit
- Dec 12 5 ✓ Enterprise Zone (EZ) Tax Credit
- Jan 28 6 **Brownfields Tax Credit**

Enterprise Zone Recap / Update

What I Heard from the Workgroup...

1

A **consensus** that the Enterprise Zone Tax Credit is an effective tool for BDC to encourage commercial development for the City, with a better ROI due to the 50% State reimbursement.

State Budget Update

1

The Governor's budget proposes to phase out the Enterprise Zone Tax Credit entirely. BRFA language says that no new properties may qualify or be awarded tax credits after June 30, 2025.

2

The City would still receive the 50% State reimbursement for previously approved credits, but the amount would decline over time as credits expire. By year 10 the City should expect little to no reimbursement.



Brownfields Tax Credit

Background



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Brownfields Tax Credit

Residential Examples

Fiscal 2019

Residential Townhomes
1200 block of Towson St.



Locust Point

Fiscal 2013

Residential Condominiums
Four Seasons at 300 International Drive



Harbor East



Brownfields Tax Credit

Apartment Examples

Fiscal 2023

Alta Federal Hill Apartments
101 West Barney Street



Federal Hill

Fiscal 2023

Prosper on Fayette Apartments
400 West Fayette Street



Downtown



Brownfields Tax Credit

Commercial Examples

Fiscal 2018

The Shops at Canton Crossing
3501 Boston Street



Canton

Fiscal 2023

Rye Street Tavern
13 Rye Street



Baltimore Peninsula



Brownfields Tax Credit - Basics

1 Purpose

- Maryland's Brownfield Revitalization Incentive Program (BRIP) is intended to promote economic development and environmental improvement, especially in distressed urban areas, by identifying and redeploying underutilized properties.

2 County Legislation

- Property tax credit is only available for properties in a jurisdiction that has elected to participate in the BRIP program via local legislation.

3 Criteria

- Property must be accepted into the Maryland Department of the Environment's (MDE) Voluntary Cleanup Program (VCP)
- The entity applying must have "inculpable person" status.
- MDE must have issued a closure document once the property is assessed.



How does the Voluntary Cleanup Program (VCP) work?



- State VCP encourages the investigation, cleanup, and redevelopment of eligible properties with known **or perceived** controlled hazardous substance contamination.
- Application requires two separate Environmental Site Assessments:
 - **Phase I:** includes a review of historical property records, site reconnaissance, and interviews with past and present owners.
 - **Phase II:** field investigation and sampling program conducted by an environmental professional designed to confirm or deny the presence of contamination.
- MDE reviews application and determines if a Response Action Plan (RAP) is necessary to remediate and address any environmental concerns.
- MDE issues two types of closure documents:
 - No Further Requirements Determination (NFRD): issued if data shows there is no unacceptable risk to exposed populations based on current conditions.
 - Certificate of Completion (COC): issued once work is completed for properties where the implementation of a RAP was required.

Voluntary Cleanup Program (cont.)



- **Analysis**

- We reviewed the 34 largest projects that qualified for the Brownfield tax credit going back to Fiscal 2011 (~75% of the value).
- Half of the properties received an NFRD determination from MDE, while half of the properties received an COC determination.
- This suggests that many properties are qualifying for the tax credit, but follow-on remediation may be minimal for some.

- **No Further Requirements Determination** (*examples*)

- Four Seasons (Harbor Point)
- Gunther Apartments (Brewers Hill)
- Sagamore Pendry Hotel (Fells Point)

- **Certificate of Completion** (*examples*)

- Union Wharf (Fells Point)
- Yard 56 (Bayview)
- Canton Crossing (Canton)

Brownfields Tax Credit - Financial Provisions

1 Base Tax Credit

- State law requires that localities that participate in BRIP provide a 50% credit on the property tax attributable to the increased value of the site, including improvements added within the tax-credit period.

2 Optional Longer Length

- Local governments have the option of extending the credit from five years to up to ten years for properties located in an Enterprise Zone.
- Baltimore City provides this additional provision.

3 Optional Higher Amount

- Local governments also have the option of adding additional eligibility criteria in exchange for an additional 20% tax credit (up to a total of 70%).
- Baltimore City provides an additional 20% for properties where the aggregate cost of the site's purchase and cleanup exceeds \$250,000.

4 Contribution to State MEDAAF Fund

- State law requires that localities contribute 30% of the increased property tax liability for the first five years to the Maryland Economic Development Assistance Advantage Fund (MEDAAF).



Brownfields Tax Credit Terms

Tax Credit Options

Tax Credit	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Brownfields	50%	50%	50%	50%	50%	NA	NA	NA	NA	NA
Brownfields > \$250K	70%	70%	70%	70%	70%	NA	NA	NA	NA	NA
Brownfields in EZ	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Brownfields > \$250K and in EZ	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%

98% of Baltimore Brownfields tax credits receive both the longer length and higher amount; in effect this is a 10-year 70% tax credit.

City Net Revenue and Cost

Tax Credit	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Brownfields > \$250K and in EZ	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Contribution to MEDAAF Fund	30%	30%	30%	30%	30%	0%	0%	0%	0%	0%
Total City Cost	100%	100%	100%	100%	100%	70%	70%	70%	70%	70%

Due to the optional provisions and the required 30% contribution to MEDAAF, the City receives no net revenue for Brownfields projects for the first five years.



Brownfields Revitalization Incentive Fund (BRIF)

Are We Getting a Return on Our Investment?

City Contributions

- City has contributed \$25.7 million to the MEDAAF over the last ten years
- *Source: City Bureau of Budget & Management Research (BBMR)*
- Average of **\$2.5 million** annual City contribution.



Fund Drawdowns

- 73 City entities received a total \$20.2 million of grants over the most recently available fifteen-year period (FY01-FY15)
- *Source: Maryland Economic Development Assistant Authority Fund (MEDAAF) Annual Report for Fiscal 2022*
- Average of **\$1.3 million** annual grants.



Brownfield Tax Credit: Comparison with other Maryland Localities

Counties

Counties	Enacted	Locality Extends Length in EZ?	County Adds Additional 20%?
Allegany	1998	Extends from 5 to 10 years.	No
Anne Arundel	2005	No	Yes, for properties in the Odenton Growth Management Area.
Baltimore City	1998	Extends from 5 to 10 years.	Yes, for properties with purchase price and cleanup cost > \$250,000
Baltimore County	1997	Extends from 5 to 10 years.	Yes, for properties with cleanup cost > \$1 million.
Cecil	2002	Extends from 5 to 10 years.	No
Dorchester	2002	No	No
Frederick	2002	No	No
Howard	1999	Extends from 5 to 8 years.	Yes, for all properties that qualify.
Montgomery	1998	Extends from 5 to 10 years.	Yes, for properties in Neighborhood Business Development Program.
Prince Georges	2009	No	No
Queen Anne's	2004	No	No
Worcester	2005	No	No

Observations:

- 12 Maryland counties (out of 24 total) participate in the BRIF program, plus four municipalities.
- Baltimore City and Salisbury have the most generous provisions, having added both optional provisions and providing minimal restrictions.
- All other counties either do not participate in one (or both) optional provisions, or provide more stringent restrictions on how to qualify.

Municipalities

Municipalities	Enacted	Locality Extends Length in EZ?	County Adds Additional 20%?
Cumberland	1997	Yes	No
Frederick	2002	No	No
Salisbury	1998	Yes	Yes, for all properties that qualify.
Taneytown	1998	No	Yes, for all properties that qualify.



Brownfields Tax Credit

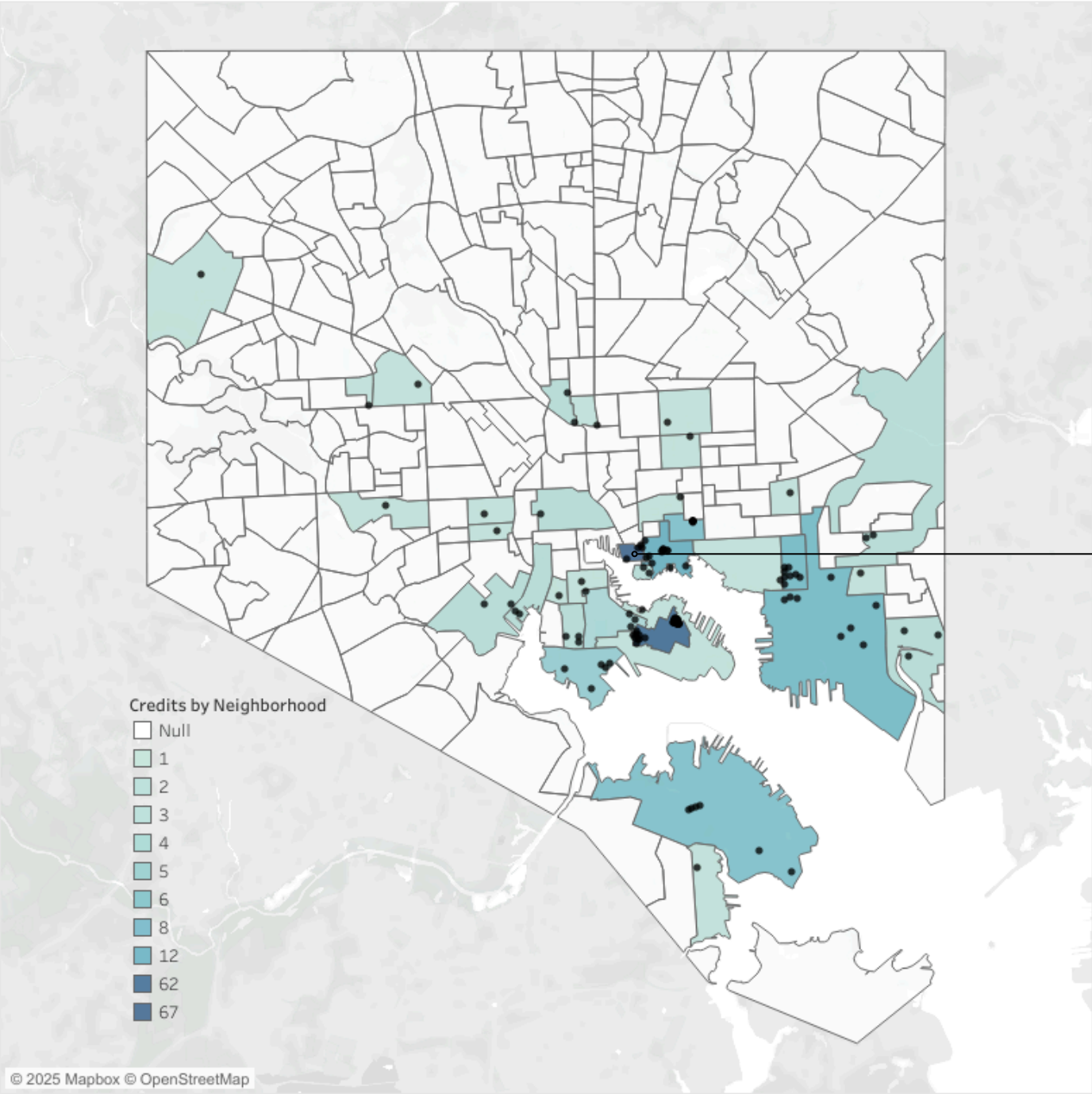
Baltimore's Program



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Distribution of Brownfields Tax Credit

Properties by Neighborhood (2014 to 2024)

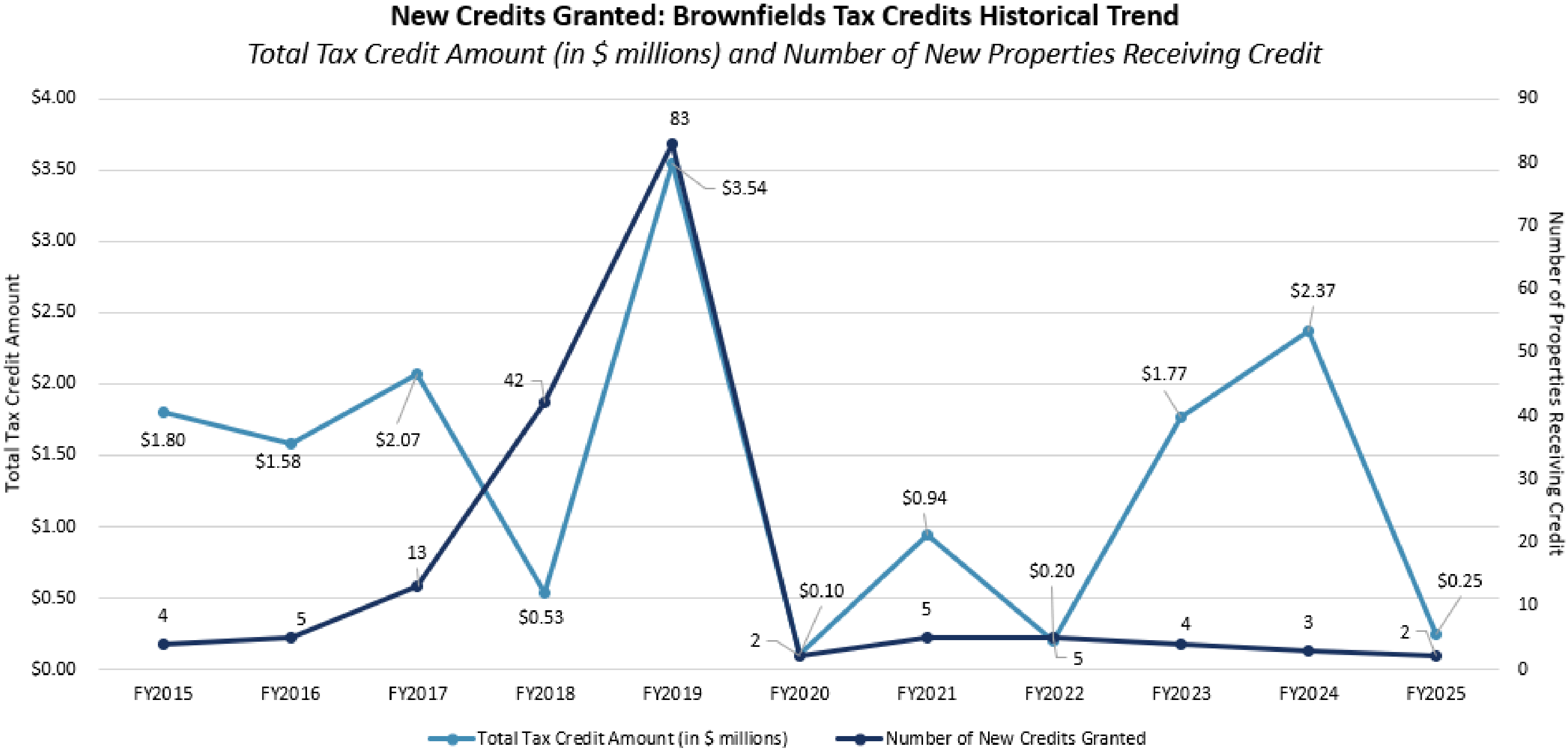


Top Ten Neighborhoods

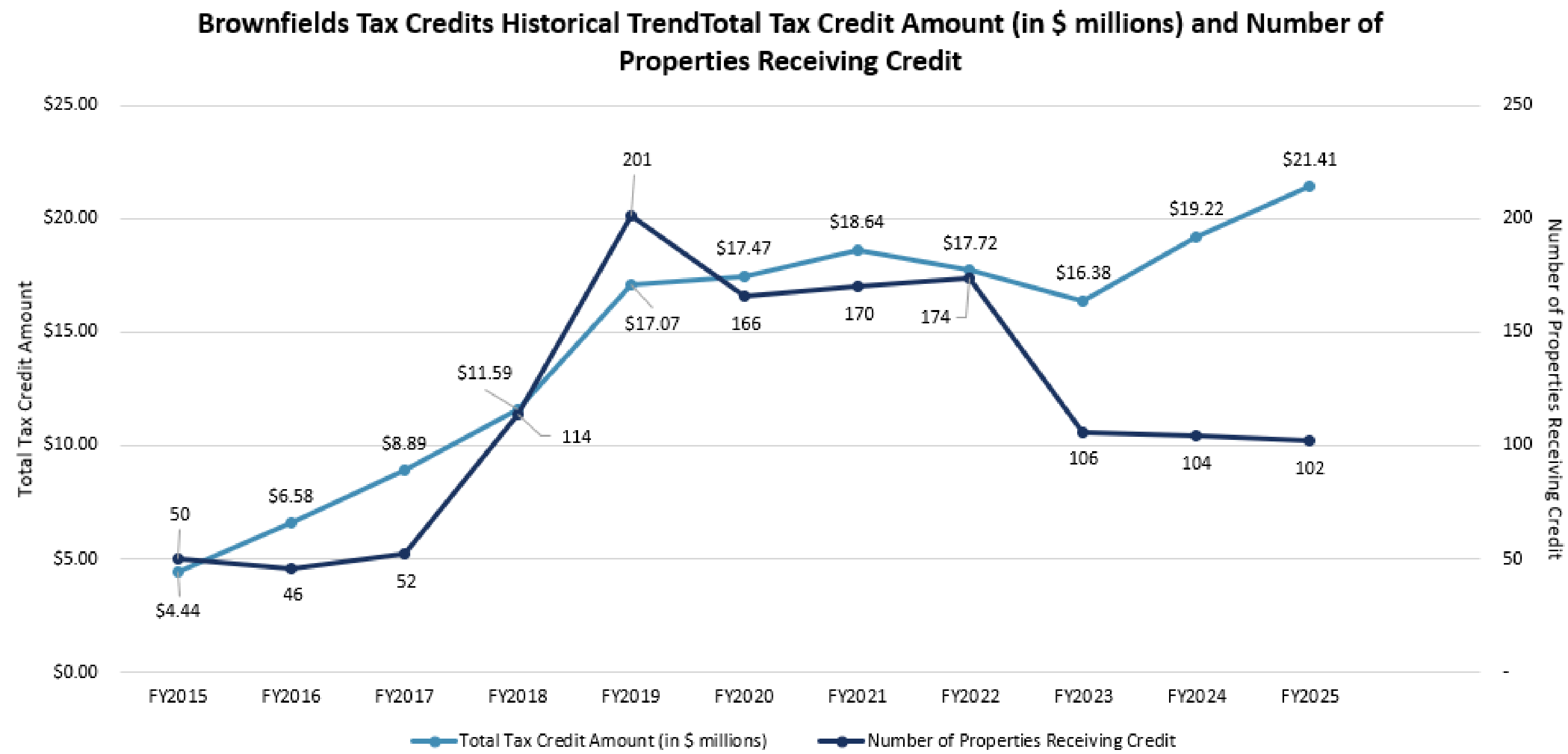
Neighborhood	Count of Parcels
Harbor East	67
Locust Point	62
Fells Point	12
Canton Industrial Area	8
Brewers Hill	8
Upper Fells Point	6
Fairfield Area	6
Baltimore Peninsula	5
Riverside	4
South Baltimore	3



Historical Trend: Brownfields Tax Credit



Historical Trend: Brownfields Tax Credit



Use of Brownfield Tax Credit vs. Other City Tax Credits

Multi-Family Apartment Example

Alta Federal Hill Apartments
101 West Barney Street



Brownfields Tax Credit

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Assessed Value	67,207,330	71,009,000	68,500,000	68,500,000	68,500,000	69,185,000	69,870,000	70,555,000	71,260,550	71,966,100	
Gross Property Taxes	1,510,821	1,596,282	1,539,880	1,539,880	1,539,880	1,555,279	1,570,678	1,586,076	1,601,937	1,617,798	
Credit Percentage	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	
Net Taxes Owed	540,540	566,178	549,257	549,257	549,257	553,877	558,497	563,116	567,875	572,633	
Contribution to BRIF	(415,835)	(441,473)	(424,553)	(424,553)	(424,553)	0	0	0	0	0	
Net City Tax Revenue	124,705	124,705	124,705	124,705	124,705	553,877	558,497	563,116	567,875	572,633	3,439,521

High-Performance Market Rate Tax Credit

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Assessed Value	67,207,330	71,009,000	68,500,000	68,500,000	68,500,000	69,185,000	69,870,000	70,555,000	71,260,550	71,966,100	
Gross Property Taxes	1,510,821	1,596,282	1,539,880	1,539,880	1,539,880	1,555,279	1,570,678	1,586,076	1,601,937	1,617,798	
Credit Percentage	80%	80%	80%	80%	80%	70%	60%	50%	40%	30%	
Net City Tax Revenue	401,928	419,020	362,618	362,618	362,618	525,175	687,731	850,288	1,013,306	1,176,325	6,161,626

Using the High-Performance Market Rate Tax Credit instead of the Brownfields Tax Credit would have resulted in \$2.7 million of additional tax revenue to the City over a 10-year period.

Use of Brownfields Tax Credit vs. Other City Tax Credits

New Residential Construction Example

Locust Point
1240 Richardson Street



Brownfields Tax Credit

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Assessed Value	518,000	514,200	514,200	514,200	533,933	553,667	573,400	589,533	605,667	621,800	
Gross Property Taxes	11,645	11,559	11,559	11,559	12,003	12,446	12,890	13,253	13,615	13,978	
Credit Percentage	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	
Net Taxes Owed	4,108	4,083	4,083	4,083	4,216	4,349	4,482	4,591	4,700	4,808	
Contribution to BRIF	(3,230)	(3,204)	(3,204)	(3,204)	(3,337)	0	0	0	0	0	
Net City Revenue	878	878	878	878	878	4,349	4,482	4,591	4,700	4,808	27,321

Newly Constructed Tax Credit

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Assessed Value	518,000	514,200	514,200	514,200	533,933	553,667	573,400	589,533	605,667	621,800	
Gross Property Taxes	11,645	11,559	11,559	11,559	12,003	12,446	12,890	13,253	13,615	13,978	
Credit Percentage	50%	40%	30%	20%	10%	0%	0%	0%	0%	0%	
Net Taxes Owed	5,822	6,936	8,091	9,247	10,803	12,446	12,890	13,253	13,615	13,978	107,082

Using the Newly Constructed Tax Credit instead of the Brownfields Tax Credit would have resulted in 4 times the net revenue to the City over a 10-year period.



Further Review

Tax Credit Combinations



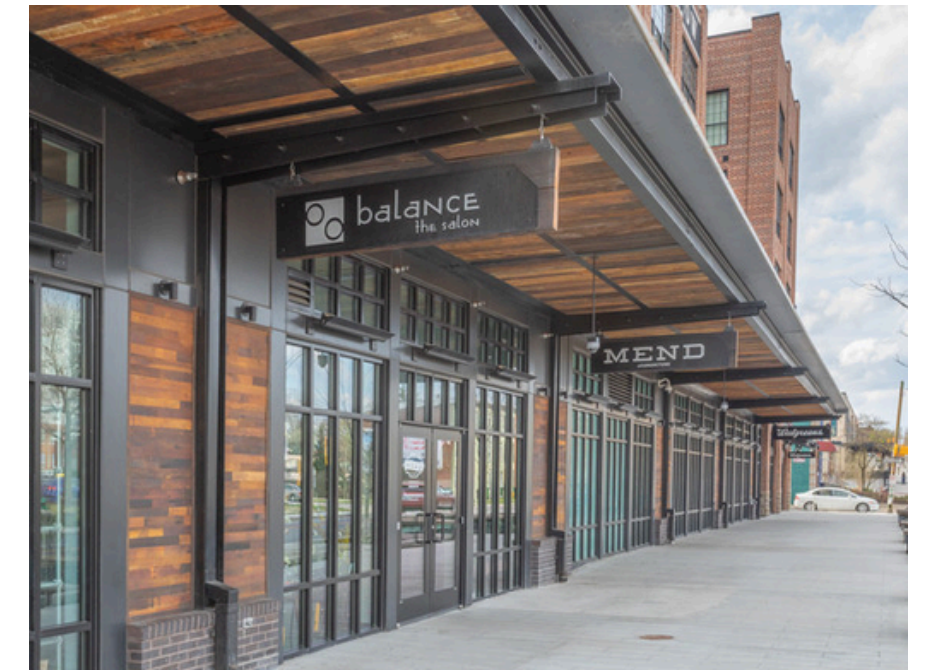
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Tax Credit Combinations

Some properties qualify for more than one development tax credit due to a split between commercial and residential space.

Enterprise Zone + High Performance Market Rate

- This can occur when a multi-family apartment building has some ground floor commercial space.
- For assessment purposes, the property's square footage is divided between the residential component and the commercial component.
- The residential qualifies for the HPMRRTC; the commercial qualifies for EZ.
- **10 properties**



Enterprise Zone + CHAP

- This can occur when a property has residential space and some ground floor commercial space.
- For assessment purposes, the property's square footage is divided between the residential component and the commercial component.
- The residential qualifies for the CHAP; the commercial qualifies for EZ.
- **22 properties**

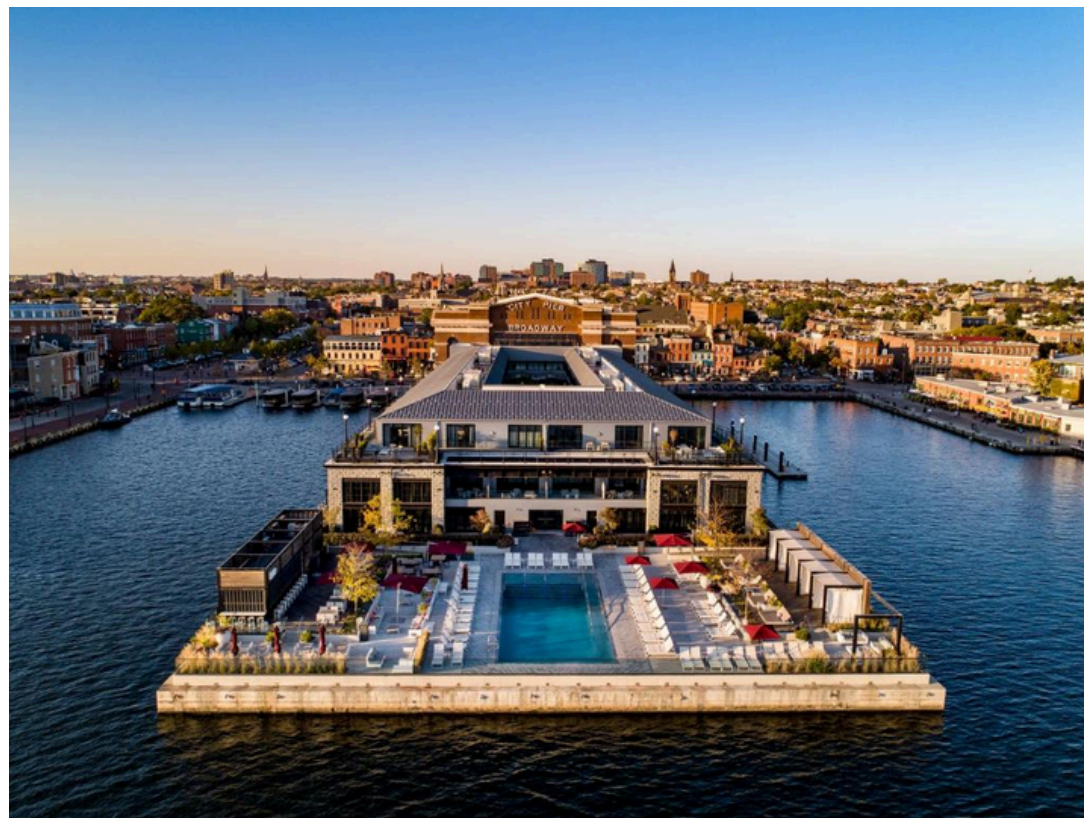


Tax Credit Combinations

Current law allows certain tax credits to be “stacked,” creating a larger benefit.

Newly Constructed Tax Credit + Brownfields

- This can occur when the property meets the criteria for both the Newly Constructed Tax Credit and the Brownfields program.
- Example = Four Seasons condominiums
- **11 properties**



Enterprise Zone + Brownfields

- This can occur when a commercial property qualifies for both the Enterprise Zone and the Brownfields program.
- Example = Sagamore Pendry
- **77 properties**



Stacked Tax Credits

Newly Constructed + Brownfields

<u>Tax Credit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Newly Constructed (primary)	50%	40%	30%	20%	10%	0%	0%	0%	0%	0%
Brownfield (secondary)	<u>35%</u>	<u>42%</u>	<u>49%</u>	<u>56%</u>	<u>63%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>
Total	85%	82%	79%	76%	73%	70%	70%	70%	70%	70%

Enterprise Zone + Brownfields

<u>Tax Credit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Enterprise Zone (primary)	80%	80%	80%	80%	80%	70%	60%	50%	40%	30%
Brownfield (secondary)	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>21%</u>	<u>28%</u>	<u>35%</u>	<u>42%</u>	<u>49%</u>
Total	94%	94%	94%	94%	94%	91%	88%	85%	82%	79%

Enterprise Zone Focus Area + Brownfields

<u>Tax Credit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Enterprise Zone (primary)	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Brownfield (secondary)	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>
Total	94%	94%	94%	94%	94%	94%	94%	94%	94%	94%



Brownfields Tax Credit

Policy Options



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Brownfields Tax Credit: Policy Options



- 1 **Opt Out of Brownfields Program Entirely**
(but add City reimbursement for remediation costs)
- 2 **Opt Out of Both Optional Provisions**
(reduce length from 10 years to 5 years)
(reduce amount from 70% to 50%)
- 3 **Revise Definition for Optional Provision**
(change definition for qualifying for additional 20%)
- 4 **No Change**



Brownfields Tax Credit Options

#1: Opt Out of Brownfields Program Entirely



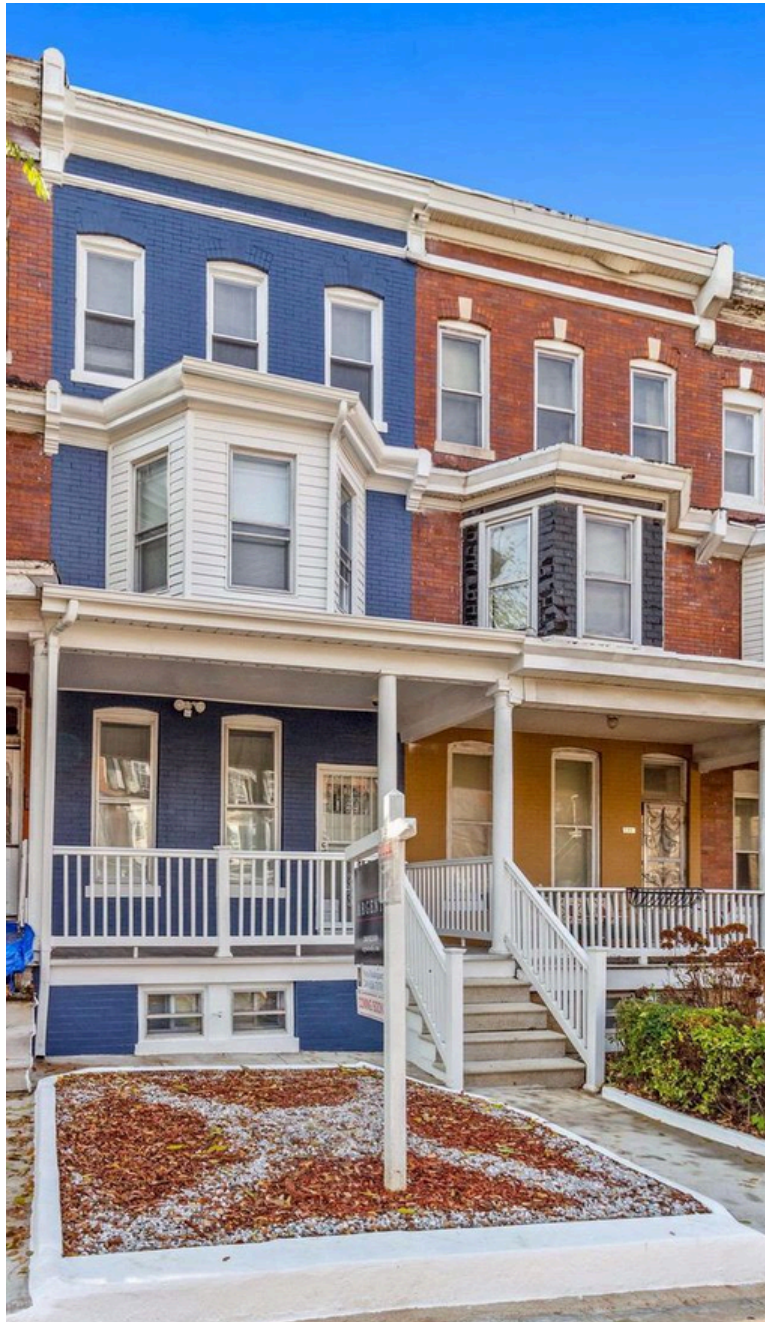
RATIONALE

- What is needed is not a tax credit, but some funding for cleanup costs that make a project economically infeasible.
- By opting out of the program entirely, the City avoids the contribution to the State BRIF Fund. Historically the City has contributed more than it has received.
- The City could set aside some funding for remediation costs and reimburse only for the actual costs. Currently, the tax credit is likely worth more than the actual cleanup cost for many properties.
- Projects would still qualify for other tax credits if applicable, such as the High-Performance Market Rate Tax Credit for multi-family apartments or the Newly Constructed Tax Credit for new residential construction.



Brownfields Tax Credit Options

#2: Opt Out of Optional Provisions Only



RATIONALE

- This option would scale the program back to the legislative minimum, which still would provide a 5-year 50% tax credit for eligible properties.
- This option would maintain the City's access to the State MEDAAF Fund.
- By reducing the length and amount of the tax credit, this option would still keep the Brownfields Tax Credit available but would steer developers to the other tax credits that provide a better ROI for the City (such as the HPMRRTC for multi-family apartment buildings).



Brownfields Tax Credit Options

#3: Revise Definition for Optional Provision



RATIONALE

- Current State law provides broad discretion to local jurisdictions to define the eligibility criteria for properties that get the larger tax credit (70% rather than 50%).
- City's current criteria for 70% credit is any property where the aggregate of the site purchase price and the cleanup cost > \$250k.
- That definition is very broad because the site purchase price alone is almost always greater than \$250k.
- To ensure that the tax credit is only granted for projects with actual cleanup costs, the definition could be re-written to include only projects with cleanup costs exceeding a certain \$ threshold (and excluding purchase price).



Tax Credit Workgroup

Future Schedules



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Future Schedules

Topic Ideas

Focus: Best Practices / Other City Examples

- Washington D.C. example (Anthony Williams)
- Philadelphia example (former Mayor Michael Nutter)
- Examples from other Maryland jurisdictions

Focus: Geography

- Baltimore's Impact Investment Areas
- Financial Feasibility Testing for Baltimore sub-markets
- Columbus, OH example
 - *Market Ready, Ready for Revitalization, Ready for Opportunity*

Focus: Affordable Housing

- Legal Ownership Structure for Affordable Housing PILOTs
- Baltimore PILOT Committee process

Other Ideas?

