



SEEDS OF TRANSFORMATION

How the City of Baltimore cultivated a successful TIF program

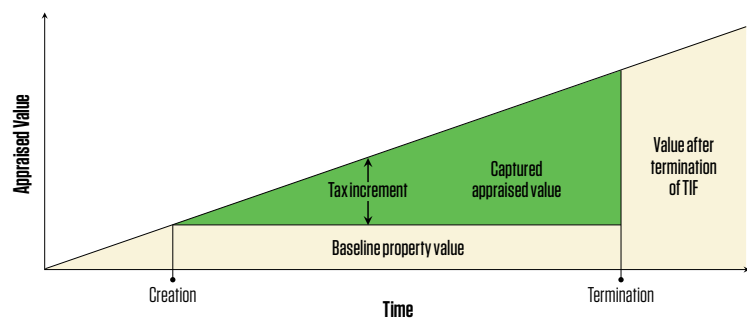
BY TALLULAH BURR

Few instruments in public finance have sparked as much promise—and as much controversy—as tax increment financing (TIF). Appearing in the 1950s, this development financing method became a creative response to urban decline that didn't require a government to raise taxes. By funding development through future tax growth, cities could attract private investments in long-overlooked neighborhoods and spur needed infrastructure improvements. Given these promises, by the 1970s and 1980s, TIF districts spread rapidly across the United States, through cities large and small. But as these districts multiplied, so too did the questions around them, while corruption scandals, malpractice, and obfuscation began to plague their use. Many states have different rules and regulations surrounding the creation of TIF districts, but the fundamental principle remains the same everywhere. As soon as areas are legally designated as a TIF district, that area's property value is "frozen." Improvements to land or property in the TIF district will

generate additional tax revenue, called the "increment," which can only be spent within the TIF district—unlike the property taxes captured elsewhere or from the frozen base amount, which go to a local government's general fund. The increment then becomes a source of revenue to pay the original costs of development and pay upfront for the costs of future improvements (see Exhibit 1). Although TIF districts largely rely on property value increases to sustain themselves, there are many other sources of TIF financing, such as sales taxes, visitor taxes, or food and beverage taxes.

Recently, however, TIF projects have come under public pressure. Despite their intentions, many TIF district funds have been distorted away from their original purposes, financing development projects in some cities' most prosperous areas instead. More frustrating still, TIFs keep millions of taxpayer dollars off the government's books, which could pay for the vital services that cover that area, like policing, utilities, schools, street maintenance, and more. Therefore, TIFs need to guarantee that their increments pay for development that would not

EXHIBIT 1 | Tax Increment Financing



Source: Planning Tank, Tax Increment Financing (TIF) | Public Financing | Types of TIF. <https://planningtank.com/finance/tax-increment-financing-tif-types-tif> (accessed 2018).



Baltimore's formal plan for TIF creation is highly rigorous, encompassing goal outlining to expectation setting. A key element of that process is the "But for" test: That economic growth would not occur in the absence of TIF-related subsidy.

otherwise occur to justify redirecting money initially going into the general fund. Finally, in many cities, the original purposes of TIFs have been substituted with malpractice, leading to opaque community financing and ultimately enabling corruption. Developers pocket millions of dollars while the original beneficiaries, blighted neighborhoods, never touch the revenue streams they were promised and that their property taxes pay for.

To many, these controversies raise the question of whether TIF districts still have their place in public finance, and if they do, what reforms must be undertaken to ensure that the benefiting communities truly benefit. To address these questions, the City of Baltimore, Maryland's TIF program is an ideal case study to understand what the future of TIFs can, and maybe should, look like.

Baltimore, a history driven by self-reinvention

The City of Baltimore has a turbulent history, marked by innovation and progress as much as by redlining and inequality. Baltimore was once a vibrant transportation hub bustling with trade,

thanks to its deepwater port and being the departure point of the first railroad in the United States. Throughout much of the 20th century, the city became a powerhouse of industry, shipping, and manufacturing, but as global trade routes moved overseas, Baltimore, like many of its post-industrial peers, was left with shrinking job markets and neighborhoods in economic decline. The physical and social void that ensued fueled complicated socio-economic problems that have burdened the city ever since. But as the city's leadership tackles these issues, that void has also created an opportunity for the city to reimagine what Baltimore can become.

The story of Baltimore's TIFs takes root in that broader story of reinvention. "One of the things that we learned from redevelopment," said Keenan Rice, an advisor to the city's TIF programs, "is that the public sector working with the private sector can make a difference. That work requires different types of tools. Twenty-five or so years ago, the City of Baltimore passed a TIF law and began using TIFs as a tool to work with developers on real estate development projects." TIFs have been integral to the city's redevelopment ever since.

TIF creation and management

In Baltimore, TIFs are an implementation tool for achieving many of the mayor's strategic objectives: reducing vacant properties, encouraging home ownership, fostering community creation, and making living affordable to all.

Baltimore's TIFs are largely project-specific, limited to one home or a row of houses. Competitive bids go out to developers who agree to the project's conditions and offer a new vision for the land. The city issues a bond to cover the upfront capital needs of the developer, setting aside interest for three years to pay the bond. After the fourth year, the city expects the TIF's increment to pay it off instead. Beyond housing, Baltimore also has several larger-scale projects. One of them is the redevelopment of Baltimore's Harbor Point, a once-contaminated chemical production site that is now the home of several large company headquarters, hotels, parks, and restaurants.

Explicit rules make Baltimore's TIFs effective in the first place, and good governance ensures that they remain so.¹ To create a TIF in Baltimore, a city agency needs to sponsor it. Even if a developer requests the TIF, the ultimate project creation will be up to the city's discretion. With the mayor's approval, the agency prepares an application, working with the city's bond counsel, TIF financial advisor, and Department of Finance. In this early stage, the agency takes on many responsibilities, such as proposing the amount of the TIF needed, establishing that the TIF will advance the City of Baltimore's public improvement goals, and guaranteeing that the city's TIF policies are respected. They ultimately submit their application to the Board of Finance, which evaluates the fiscal details of the TIF. If the TIF is approved, the city council will vote on its creation, and the finance director will be responsible for implementing the TIF.

The city's formal plan for TIF creation is highly rigorous, encompassing goal outlining to expectation setting. A key element of that process is the "But for" test: That economic growth would not occur in the absence of TIF-related

subsidy. As Rice puts it, “We want to capture tax increments that are generated and created by the investment of the tax increment. We do not want to capture tax increments that would have otherwise occurred and could have gone into the general fund.”

Yet Baltimore’s TIF program includes more than an explicit process for TIF creation. The city has a clear outline for the TIF’s management to ensure transparency and maximum community benefit.

According to Rice, there are two pillars to TIF transparency in Baltimore: reporting and accounting. “The developer is required to submit a quarterly report so we can track the TIF’s progress. Then, on behalf of the city, we prepare an annual report for all the TIFs, which is submitted to the mayor and the city council.” The reporting process enables the city to ensure that the TIFs fulfill their goals, as stated at creation, and reconsider them if they do not.

“For the second part, any money that gets spent must be spent pursuant to an accounting and recovery process. Invoices must be submitted. Those invoices are reviewed by the construction inspector to see that the work has been done. Second, they are reviewed by an accounting inspector to ensure that every penny is documented with an invoice, and those records are kept.” That accounting, compiled as an audit file, is critical to ensure the transparency of the TIF, as well as guarantee that the city complies with any potential audits.

A key facet of TIF success is the increment, which pays for the development—without an increment, the TIF’s viability crumbles. In Baltimore, if the TIF does not generate an increment in the fourth year (when the city has no more money set aside for interest), the developer pays the difference. As Rice put it, “An important aspect of the TIF is that the city pays a developer. They want to hold the developer to its promises to produce a tax increment to pay the bonds. If the city does not get what it is promised, it holds the developer accountable. That gives the developers some real motivation to make their projects successful.”

Three TIF takeaways: specific, intentional, and explicit

Baltimore’s success stories offer three main takeaways about what TIFs can and should be: specific projects with clear goals and explicit means of achieving them.

1 | PROJECT-SPECIFIC

In Baltimore, individual houses can be TIFs. The revenue generated by property tax increases on that house pays for its initial development costs. In other words, the financial flows through the TIFs are highly transparent.

Many other TIF programs across the country do not experience the same success, mainly because they cover large areas and don’t have explicit goals, while poor governance rapidly transforms them into a “back door” to the general fund. These are called “area TIFs,” which are less useful for a city’s planned development goals for several reasons. For one, they have poorly defined objectives, making projects harder to develop in line with the city’s goals or even to achieve an increment. Even if the development works well, the distribution of its benefits

is often unequal—unfortunate for an instrument that seeks to reduce inequality.

But TIFs have an even-darker side that should caution city planners against them. Area TIFs are easily corruptible, and poor governance can lead to millions of dollars’ worth of capital flight from the neighborhoods they were intended to fuel, not pillage.

Nonetheless, area-TIFs can be effective in certain instances, such as Baltimore’s TIF for 8,000 abandoned properties, created in 2024. This TIF is extremely specific in detail despite the broad area it covers, and its processes are outlined clearly to guarantee that it fulfills Baltimore’s development promises.

2 | CLEAR GOALS

When the mayor approves a TIF, they approve a highly detailed plan for the redevelopment of the landscape. This document reiterates the purpose of Baltimore’s TIFs in general—to eliminate blight and promote economic development—as well as the TIF’s individual objectives. They also clearly state the metrics of the TIF’s success, another goal that holds developers to their promises.

While individual houses can be TIFs, the City of Baltimore has several larger-scale projects. One of them is Harbor Point, a 27-acre waterfront neighborhood currently under development. *Image courtesy of harborpoint.com.*





Baltimore's story may remain imperfect, but if it proves anything, it is that proper TIF governance can drive critical urban renewal in cities too long burdened by inequality and injustice.

In fact, as in any project, outlining the TIF's goals guarantees that the diverse actors, with many diverging interests, remain aligned to the same outcome. Stating the project's goals also makes corruption more difficult; if the stated goal isn't achieved, the city can hold developers accountable. TIFs are not to be used haphazardly—they work best when every actor commits to the same vision.

3 | EXPLICIT PROCESSES

To set clear goals, a government must specify detailed means of achieving its objectives. Baltimore's TIF applications are not empty promises that can be easily discarded.

For instance, the City of Baltimore has explicit processes to determine that a TIF is warranted in a situation where development would not occur organically. As Rice explained, "the city undertakes quantitative and qualitative analysis of


whether capital can be attracted to the project without public intervention."

"A TIF property is often in a blighted area or requires some extraordinary development cost. Sometimes the city wants more affordable housing. It's important to identify what is different about this project that makes it impossible to attract private capital organically.

"Then, we undertake a quantitative analysis where we look at the numbers. We require developers to be "open book" with us. We want to look at their costs. We want to look at their income, and we want to see if they have a good rate of return. We evaluate whether those numbers are sufficient to attract investors on their own. Otherwise, we need public investment to help make it happen, which calls for a TIF."

This example is not unique in the City of Baltimore's program. Every goal is backed up with conditions and processes to reach it, a pivotal factor for success.

Conclusion

When the City of Baltimore first began its TIF program, the city had simple goals in mind—to foster growth, create communities, and revive its urban terrain. Today, the city's mission has transformed into a vast development project that has uplifted hundreds of thousands of people and renewed the city's landscape into a more vibrant and integrated place. The city has used TIFs to create stable homes and build safe communities. The city now has new commercial hotspots, parks to enjoy, and a vibrant nightlife scene. Baltimore's story may remain imperfect, but if it proves anything, it is that proper TIF governance can drive critical urban renewal in cities too long burdened by inequality and injustice. 

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¹ Affordable Housing TIF, Baltimore City Department of Housing & Community Development website (dhcd.baltimorecity.gov/affordable-housing-tif).