FROM		CITY of BALTIMORE MEMO
NAME & TITLE	Jennell Rogers, Chief	
AGENCY NAME & ADDRESS	Bureau of Treasury Management 200 Holliday Street, Room 7	
SUBJECT	City Council Bill 24-0594 – City-wide Affordable Housing Bond Issuance	

TO

The Honorable President and
Members of the City Council
City Hall, Room 400

DATE:

November 7, 2024

Position: Support

The Department of Finance is herein reporting on City Council Bill 24-0594, City-wide Affordable Housing Bond Issuance the purpose of which is intended to provide for the issuance of special obligation bonds or notes in amount not to exceed $65,000,000 (subject to additional approval for a borrowing program in the aggregate principal amount of $150,000,000) for financing rehabilitation of vacant units and development of affordable housing and public infrastructure improvements and related costs. The Bill also provides a pledge by the City of tax increment revenues, subject to appropriation, to the payment of debt service on the special obligation bonds.

The Board of Finance has considered and approved the Special Obligation Bond request for this purpose on July 15, 2024; and approved the submission of this legislation to the President and Members of the City Council of Baltimore.

Background

TIF bond proceeds will support two uses: hard construction costs to restore vacant properties and design and construction of public infrastructure that will lead to new housing construction. While the Charter defines affordable housing as up to 115 percent of the area median income as defined by HUD and adjusted for family size, the legislation emphasizes targeting TIF funds to households earning 60 percent of the area median income to ensure that both housing and wealth-building is targeted where it is most needed.

In December 2023, Mayor Scott, the Greater Baltimore Committee (GBC) and Baltimoreans United in Leadership Development (BUILD) presented a 15-year, $3 billion public-private roadmap intended to reduce the City's high vacancy rate using a holistic whole-block approach to identify an outcome for every vacant property on a block.

The City's commitment includes a $150 million Citywide Affordable Housing TIF. The Council will be asked to approve multiple legislation that will authorize the issuance of bonds up to $150 million starting with the $65 million authorized in Council Bill 24-0594.

Tax increment financing is an implementation tool and is to be used to implement the priorities of the City. This proposed TIF would provide for the issuance of multiple series of bonds in an aggregate amount not to exceed $65,000,000 to finance the redevelopment of vacant lots and renovation of abandoned homes, along with infrastructure for these homes and neighborhoods. The TIF is intended as one source of funds that will be used to eliminate the City's vacant property inventory.

The Affordable Housing TIF has been determined to be financially feasible by MuniCap, Inc. a Columbia-based firm specializing in tax increment financing and financial analysis, and by PFM Group Consulting LLC and its affiliate, PFM Financial Advisors LLC (collectively, PFM) Public Resources Advisory Group (PRAG) recently updated a debt affordability study for the City and concluded that the City could support the issuance of up to $150 million in TIF Bonds without negatively affecting the City's debt ratio guidelines. Moreover, there will be no legal or fiscal obligation on the City's General Funds for these TIF bonds, as has been the case with all TIF bonds issued by the City. The Offering Statement for the bonds will specifically state that investors assume all of the risk associated with bonds and that the city has no moral or financial obligation to repay the bonds. This is a common approach with TIF bonds throughout the country, as one of the reasons for using tax increment financing is to limit the local government's obligation to the new tax increment revenues that are produced. TIF bonds are readily sold with this limitation, which has been in place for all the City's TIF bonds.

This TIF is grounded in equitable neighborhood development and addresses more than a decade of citizen and stakeholder concerns that investment was directed towards the waterfront rather than the neighborhoods that most needed support. The Affordable Housing TIF differs from the City's other TIF Projects in the following ways:

Affordable Housing TIF	Traditional TIF
Citywide with a focus on areas with high vacancy rates	Defined project and development area – boundaries are contiguous
Uses prior year assessment that includes properties that have received a Use and Occupancy permit and are included in the TIF District	TIF Bonds are sold based on development that is ready to proceed; the increased property taxes from the completed development repays the TIF Bond
Many developers as well as some individual homeowners	One primary developer
No special tax as the large assessment difference between a Vacant and Rehabbed property provides sufficient increment	Developer is subject to special tax to ensure sufficient tax revenues

Generating Increment and Debt Service Payment

The size of each Affordable Housing TIF bond will be supported by the increase in property taxes within the TIF district.

For the first bond tranche only, the increment will be supported by formerly vacant properties that were redeveloped and received a Use and Occupancy permit between January 1, 2023, and the last reassessment before bonds are issued by the State Department of Assessments and Taxation (SDAT). These properties are citywide within the TIF District, demonstrating the role that middle and choice neighborhoods play in creating a successful TIF program.

Additional bond sales will be supported by a combination of the redevelopment of properties that received an allocation of TIF bond proceeds and other vacant properties that were redeveloped and received a Use and Occupancy permit.

Fiscal Impact Analysis

The City will have no liability to repay the bonds beyond committing the incremental increase in real property taxes for properties within the TIF district. To ensure there are sufficient funds to repay the bonds, debt will only be issued at a 125% coverage ratio with the tax increment identified to back it. The first tranche will be backed with existing tax increment at a 125% ratio, and future tranches will only be issued if there is sufficient new incremental revenue at a 125% ratio to cover the new debt service.

The only impact to the city's General Fund is the value of the existing tax increment used to fund debt service on the first tranche of bonds, since that increment could have theoretically been used for other purposes. That amount is expected to be between $2 million and $3 million annually.

Conclusion

The Department of Finance supports the legislation to authorize the issuance of special obligation bonds and the pledge for the development. The Affordable Housing TIF is a unique opportunity to address vacancy rates at scale in a way that prioritizes neighborhoods, residents and stakeholders that have often been overlooked and left out of funding decisions. Because they are part of a comprehensive strategy that goes beyond housing, TIF funds will provide comparable mobility and accessibility that makes middle and choice neighborhoods desirable and sought after places to live.

For the reasons stated above, the Department of Finance supports City Council Bill 24-0594.

cc: Nina Themelis