

Community Finance in East Baltimore: a Study of Phase One Redevelopment and Financing

Authors

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Overview

This issue of *Community Development Practice Papers* focuses on a group of partner organizations in East Baltimore and the community development finance tools used to address a neighborhood challenged by disinvestment.

Community development finance includes funding sources from public, private and philanthropic sources and the methods by which a funding source may be used to leverage other sources. While the “deals” are often complex financial transactions, and new sources of capital continue to evolve, the role of organizational partners and funders may evolve in new and innovative ways.

The goal of community development investment is to create new opportunities in disinvested areas through affordable housing, small business development and jobs. In this example, organizations with a primary purpose to help meet the credit, housing and economic development needs of low- and moderate-income communities led a project by engaging other organizations to assume new roles and financial leadership.

Community development investment in East Baltimore can be distinguished from other large-scale urban redevelopment efforts because of both the combined economic, community and human development strategies designed to benefit the area residents, businesses and the surrounding communities, and because of the innovations in community financing between and among core partners.

Background

As one of the poorest neighborhoods in the City of Baltimore, a focus on East Baltimore naturally emerged as a result of housing vacancy rates, crime, infant mortality and unemployment statistics that were “all through the roof.”¹ The concept of launching a focus on the neighborhood emerged in 2000 when the then-mayor, Martin O’Malley, convened local business leaders in Baltimore to address the social and economic challenges in the neighborhood. From the beginning, a founding principle for any project undertaken in the neighborhood was that local residents and key stakeholders would be positioned to oversee development and efforts to provide community benefits.

Originally, the Historic East Baltimore Community Action Coalition (HEBCAC), a community development corporation, focused efforts on rehabilitation of homes but as vacancies increased, HEBCAC was unable to keep up with the deterioration of homes. HEBCAC first proposed the idea of clearing vacancies and creating new housing stock.

The idea to establish a private nonprofit led by community, government, institutional and philanthropic partners emerged as the process needed to revitalize and rebuild the neighborhood. In order to leverage the neighborhood proximity to the Johns Hopkins medical complex for employment and as a real estate driver for investment, the priority was to demolish, construct and provide development and amenities to encourage former residents to return and new residents to settle. Equally important was the need to replace aging, obsolete, lead-filled homes with new units of mixed-income rental and purchase units that meet the needs of today’s families.

The primary founding principle for a project of this magnitude was to ensure that those families directly affected by the redevelopment would be treated fairly and respectfully. Several partners emphasized the need for support for the families throughout the process.

Initial years were spent planning, fundraising and preparing the neighborhood and its residents for new construction and growth. In 2003, the East Baltimore Development Inc. (EBDI), a 501[c](3), was formed to manage the proposed \$1.8 billion East Baltimore Development Initiative (Project), centered on transformation of an 88-acre area near the Johns Hopkins medical campus that faced a continuing process of disinvestment. The proposed capital structure is outlined for phases 1 and 2 in Appendix A. Phase 2 financial transactions have not yet begun as of the writing of this paper, however, various organizations have begun engaging in specific agreements as to the redefined elements of phase 2.

EBDI had public and private partners, including the federal government, the State of Maryland, the City of Baltimore, the Annie E. Casey Foundation, Johns Hopkins Institutions, The Harry and Jeanette Weinberg Foundation, the Atlantic Philanthropies and others. The initial scope of the project included: 2,100 units of mixed income homeownership and rental housing units, 1.7 million square feet of life sciences research and office space, a new seven acre community learning campus with an early childhood center, a new public K–8 elementary school, fresh food stores and other neighborhood retail amenities, and a new community linear park.

The Project gained support from the community, institutional, government and philanthropic partners, and three key partners emerged — the City of Baltimore (City), Johns Hopkins University (JHU) and affiliated institutions, and the Annie E. Casey Foundation (AECF). The Harry and Jeannette Weinberg Foundation initially committed \$15 million.² Tony Cipollone, then vice president for Civic Sites and Initiatives at AECF, where he worked in senior leadership for over 20 years, explained, “Casey wanted to ensure that this was not solely about development, but also people-focused and community-based.”³

JHU, an economic anchor institution in the City and major employer in the Baltimore region, approached the Project as an economic developer might, aware that reinvestment around its hospital in East Baltimore could mean stability for its local workforce, visiting patients, the

neighborhood and its residents and more broadly, the City as a whole, as explained by Andy Frank, assistant to the president at JHU.⁴

In order to ensure that both neighborhood residents and visitors at the Medical Campus have access to retail services, the master plan included the construction of a pharmacy, a restaurant and a hotel. JHU, using its economic development capabilities, found creative ways to help overcome challenges faced by each of the businesses. JHU became 50 percent owner of the Walgreens at EBDI. With three year revenue targets secured through purchase agreements with JHU, Atwater’s Restaurant agreed to be an anchor restaurant.⁵ JHU also agreed to include its name on a Marriott Residence Inn in order to promote visitors to East Baltimore and generate greater internet search engine popularity.

JHU resides as the majority, credit tenant in two of the physical structures at EBDI, the Rangos Building housing life science research and development space, as well as the 1812 Ashland Avenue Life Science Building.

AECF employed an external organization to survey the neighborhood, gathering relevant data about local demographics. The findings revealed that there were many more families living in the area than previously assumed, creating a greater incentive to include the community’s input during relocation planning. AECF created a Family Advocate position to consistently connect the East Baltimore families to supportive services.⁶

Financing Reinvestment

In the early stages, EBDI faced construction financing and working capital shortfalls.⁷ The perceived investment risk in a troubled neighborhood with speculative development plans meant investor interest and traditional sources of capital were unavailable; consequently meant credit enhancements were utilized to meet the Project’s funding needs (See Appendix B).

The available tool for acquisition of the land was eminent domain, the power to take private property for public use, in this case by a nonprofit organization authorized to do so, with just compensation to the owners of the property. EBDI used eminent domain⁸ to acquire approximately 3,000 properties for large-scale demolition in anticipation of the first phase redevelopment of 31 acres. Approximately 740 families were relocated in this initial phase. Of those 740 families, 240 owned homes and the remainder were renting.

State Capital funds, City General Obligation bonds, and other public funds provided \$169 million, or 77 percent, of the \$219 million of costs to purchase and demolish properties, relocate residents, provide intensive family support services for those relocated and build new infrastructure. In keeping with the focus on residents, the amount paid for relocation was substantially above the original \$50,000 per household budget with actual payouts of \$150,000 for renters and \$265,000 for homeowners. JHU joined AECF to compensate the higher costs for relocated households.

New Markets Tax Credits

In three New Markets Tax Credit (NMTC) transactions totaling more than \$50 million, AECF and EBDI used AECF assets to secure funding streams that resulted in the infusion of more than \$13 million in equity into EBDI.

The NMTC program provides an incentive for business and real estate investment in low-income communities through a federal tax credit, and is administered by the U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund and allocated by local Community Development Entities (CDEs) across the country. With the first two NMTC financings, which took place in 2005 and 2007, Enterprise Social Investment Corporation (ESIC, now renamed Enterprise Community Investment), together with Bank of America Community Development Corporation, provided more than \$37 million of financing, consisting of \$28 million in debt repayable with interest only at the end of seven years and \$9 million in equity. In 2009, the third NMTC financing took place with PNC Bank and its affiliate PNC New Markets Investment Partners providing financing of \$15.7 million, consisting of \$11.1 million in debt repayable with interest only at the end of seven years and \$4.6 million in equity.

Enterprise Community Foundation received a \$90 million first-round NMTC allocation from the CDFI fund in 2002, representing four percent of the total credits awarded that year nationally. To receive the NMTC award, Enterprise launched a special-purpose, wholly owned for-profit community development entity (CDE), ESIC New Markets Partners LP, based in Columbia, Maryland. ESIC also received a second award in 2003 for \$140 million, again representing four percent of the total credits awarded that year nationally. Enterprise's ESIC Fund committed to EBDI \$15 million worth of their NMTCs in 2002, followed by another \$15 million in 2003. All of the EBDI census tracts were eligible for the NMTC program based on poverty and economic development indicators; furthermore, the Project was contained

within a federally designated Empowerment Zone and a State Enterprise Zone. However, due to the perceived investment risk, there was no market for these NMTC financings. In order to generate investor interest, AECF provided a credit enhancement guarantee secured by its \$4 billion endowment, mainly comprised of United Parcel Service stock. Once the NMTC credit enhancement was secured, Bank of America purchased ESIC New Market Partners' tax credit allocation and later purchased the second allocation as well. In fact, the first closing took one year and the transaction costs, including legal fees, which were incurred by AECF, was around \$1 million. The investors got a 39 percent tax credit over a seven-year period based on the amount of Qualified Equity Investments (QEIs). The QEIs were made up of an equity investment from the tax credit investor plus "leveraged loans" from banks.

In connection with the third NMTC financing, which took place in 2009 to help finance the construction of a new school complex (Henderson-Hopkins School), PNC Bank and its affiliate PNC New Markets Investment Partners provided financing, which generated \$11.2 million in net proceeds.

Low-Income Housing Tax Credits

The Low-Income Housing Credit (LIHTC) is a dollar-for-dollar tax credit for affordable housing investments. The credit was created in the Tax Reform Act of 1986 to provide incentives for the use of private equity to develop affordable housing for low-income families. The law gives states an annual tax credit allocation based on population.

The Maryland Department of Housing and Community Development (DHCD) awards LIHTCs on a competitive basis to nonprofit and for-profit sponsors of eligible housing projects. DHCD provided LIHTCs and loan funds for three projects: Parkview at Ashland (74 senior apartments), Chapel Green apartments (63 mixed-income apartments and townhouses) and Ashland Commons (78 apartments). All three projects were early stages of the redevelopment timeline and received in total \$2.8 million in LIHTCs, which were sold to raise \$26.7 million in equity. Between 2006 and 2009, DHCD financing was a critical factor to maintaining pace in the area's redevelopment while also contributing a cumulative value of nearly \$40 million, and more than 200 units of high quality rental housing.⁹

Tax Increment Financing

In 2008, AECF gained a commitment from the City to retire a portion of the outstanding NMTCs that held the credit enhancement of AECF assets by the issuance to EBDI of a \$15 million Tax Increment Financing (TIF) bond. Eventually, all of the NMTCs were retired from the issuance of TIF bonds. A TIF is a public financing method commonly used as a subsidy for redevelopment, infrastructure, and other community-improvement projects. With a TIF, future property tax revenue increases from a defined area or district are applied to an economic development project or public improvement project in the community.

In the case of East Baltimore, the largest public investment came in 2008 and 2009 from the sale of a total of \$85 million in TIF bonds to investors, which represented more than one-third of the Project's public funding. The repayment of the TIF bonds are to come from property taxes diverted from the real estate improvements in the first phase of the project, the initial 31 acres, over 29 years. That schedule assumes there will be enough development on the property to generate the taxes to repay the investors.¹⁰ One of the investors in the TIF bonds was AECF, which purchased \$23.7 million of the bonds in 2009 when the economy slumped and it became difficult to find private investors.

Endowed nonprofits like universities or foundations can be motivated to social investment by matching their resources with investment possibilities. The Tax Reform Act of 1969 allowed Program Related Investment (PRIs) and as a result, some foundations have actively made below-market loans and investments. PRIs, like grants, count toward private foundations' federally mandated qualified distributions, so these instruments are especially attractive to foundations.

Grant Funds for Workforce

Another original goal of the Project was to generate approximately 6,000 jobs in the neighborhood. EBDI leaders recognized the low educational attainment of the population, with a more than 40 percent dropout rate among high school students in the neighborhood.¹¹ And, in an area almost 100 percent African American, 48 percent of area residents aged 16 years or older were engaged in work activities, compared to 57 percent of East Baltimore residents, 60 percent of City residents and 67 percent of the Metropolitan Statistical Area residents.¹² Further, barriers to employment exist in the area as a result of criminal backgrounds and disabilities.¹³

To gather data to counter these negative workforce conditions, EBDI engaged the University of Baltimore's Jacob France Institute to conduct an analysis of the workforce supply and demand in East Baltimore. The study focused on three goals: "develop projections of the types of jobs created by EBDI's planned redevelopment activity (labor demand); identify and analyze the characteristics of the local, East Baltimore workforce (labor supply); and assess the policy implications of the relationship between the jobs created and characteristics of the local workforce."¹⁴

In addition to existing workforce programs, including the East Side Job Center; the Historic East Baltimore Community Action Coalition (HEBCAC), which runs the Youth Opportunity program; and the Job Opportunities Task Force, which runs the JumpStart Program, a construction training program that prepares city residents to become a licensed carpenter, plumber or electrician, EBDI established the East Baltimore Workforce Alliance to connect residents to jobs and training, specifically in the market sectors of health care and construction.

The City applied and received a grant from the U.S. Department of Labor to create a basic-skills institute in East Baltimore to address experience and aspirational challenges. The program also received \$875,000 in start-up funding from local foundations. The efforts focused on providing a training program for entry-level and skilled workers in the construction industry as well as a pre-apprenticeship program. Both programs were to meet the demand by the related rebuilding efforts in the neighborhood and to connect residents with those jobs. These attempts were hampered by challenges associated with workforce readiness, a lack of a system to coordinate the changing needs of workers and employers, and the fact that "at least half of all East Baltimore residents face significant barriers to reaching even the first rung on the region's most promising career ladders."¹⁵ At the same time, the Project teamed up with the Baltimore Health Care Coalition to help establish a place-based workforce development program for careers in healthcare. Plans to use a health care-focused approach to help East Baltimore residents build skills in the medical related field and to create a pipeline of trained workers has not yet occurred.

EBDI and Forest City Joint Venture

After the primary phase of acquisition and subsequent demolition, EBDI formed a joint venture with private

developer, Forest City, and design firm, Sasaki Associates, to undertake the massive urban renewal effort. The for-profit joint venture, Forest City-New East Baltimore Partnership, became the master developer for the initial phase of the Project. The Forest City Science + Technology Group develops science-related research projects by engaging with research universities, corporations and institutions to provide the venues for research commercialization.

The first building, the 288,000 square feet Rangos Life Sciences Offices, opened in 2008, followed in 2009 by a 154-unit subsidized apartment tower that was marketed primarily for older residents. But new buildings and jobs were slow to materialize as the Great Recession set in, and plans for the initial 31 acres had to be revised. By 2012, “many believe(d) that EBDI was too entangled in racial tensions, accusations and financial setback to salvage.”¹⁶ Residents felt EBDI’s promises for development transparency, community participation and job creation were misleading and others described the project as a “land grab” by JHU and cited a history of “razing blight” through buying properties for future expansion and then not constructing for decades.¹⁷ “If EBDI fails, then my presidency at Hopkins fails,” stated Ronald J. Daniels, 14th president of JHU in 2012.

In 2012, with *The Daily Record* publishing a five-part investigative series on EBDI titled “Too Big to Fail? Betting a Billion on East Baltimore,” the urban revitalization project was questioned strenuously. *The Daily Record’s* series was critical that “nowhere is there a comprehensive, independent public accounting of the funds and how they have been spent.”¹⁸ Because EBDI is a private nonprofit, the City has no fiscal oversight. Two members of City Council sit on EBDI’s board as non-voting members and the City’s housing commissioner receives monthly reports on the project’s progress.

The 929 Tower

The Project’s rebirth was the construction of a 20-story residential tower, called The 929, owned and funded by the Johns Hopkins Institutions, the umbrella organization for JHU’s 10 divisions on campuses in Maryland and Washington, D.C., as well as its international centers in Italy, China and Singapore. Reed Hall, the sole housing facility on the East Baltimore Medical campus, was set to close in spring 2012. In May 2012, The 929 opened with a majority of its tenants being JHU graduate students. Soon after, a 10-story parking garage was completed and the Johns Hopkins Berman Institute of Bioethics moved into a renovated police station, both in the center of the 31-acre redevelopment area.

In 2013, ground was broken on one of the key initiatives of the original plan for the Project – the new Elmer A. Henderson: A Johns Hopkins Partnership School (a.k.a. Henderson-Hopkins) and the Harry and Jeanette Weinberg Early Childhood Center. The seven-acre site, encompassing two blocks of what had been 200 row houses at the edge of the redevelopment district, was designed to share the campus between the \$42 million, 90,000 square-foot Henderson-Hopkins School and the \$10 million, 28,000 square-foot Weinberg Early Childhood Center. Also part of the school facility plan was a recreation center, library, auditorium and a large community center for the neighborhood. Both the Henderson-Hopkins School, which serves children grades K–8, and the early childhood center are operated by the JHU School of Education working in partnership with Morgan State University’s School of Education and Urban Studies. Also in 2013, construction began on several for-sale market rate residential projects, including 40 new row homes and five condominiums, and construction began on a mixed-income project that contained nine market rate apartments and 54 low-income rental units. These were the first public residential projects since the completion in 2009 of the initial mixed-income 154-unit apartment tower.

In June 2014, a \$171 million state facility, Maryland Public Health Laboratory, opened. In 2015, the new Gateway Project was initiated, which included plans to construct a 194-room extended stay hotel that would be situated at one end of a new six-acre, three block linear green space called Eager Park. In 2015, phase 2 of the demolition of existing dwellings along the north side of the development zone was started. Five residential projects in the initial phase 1 area also were begun in 2015: Preston Place, adding 24 rental units to the 24 that have already been completed; McDonogh Square, rehabilitating 10 units; Tu Casa, building three new row houses; Eager Park West, rehabilitating 25 units; and Windemere LLC, 49 new, for-sale row houses. A 190-unit market rate apartment building, Penrose/Eagle Square, was also awarded. In 2016, construction was completed on 1812 Ashland Avenue, a 170,000 square-foot mix of labs and offices, and the Maryland Institute College of Art (MICA) operations center, which spent \$1.3 million for acquisition and renovation of a historic City firehouse in the neighborhood.

Upon redevelopment, the Science + Technology Park at JHU will provide over a million square feet of offices, chemistry and biology labs, and other state-of-the-art medical facilities.

Acceleration of Neighborhood Reinvestment

The progress shown within the Project geography has led to incremental private and nonprofit developers' acceleration of investments in the neighborhoods of East Baltimore, including new homeownership in neighborhoods of Oliver to the west, Milton-Montford to the east, Broadway East to the north and the Broadway corridor. The Food Campus and Hoen Lithograph Building are other signature development projects underway in the area. Hoen and Company, a world renowned lithograph printer, occupied the building from 1902 to 1981. Today, Cross Street Partners and City Life are refurbishing and repurposing 80,000 square feet of the manufacturing facility. The vision is a job training facility, adult literacy center, and multipurpose community space for facility and the anchor for food access, housing, transportation and employment in East Baltimore.

The first building in the Baltimore Food Campus is City Seeds. Centered in the one-story silver building on Llewellyn, the Baltimore Food Enterprise Center houses two programs focused on workforce training for the food industry. Humanim, a workforce training nonprofit moved its social enterprise, City Seeds, and the School of Food operations into the teaching and commercial kitchens.

EBDI Phase 1 Current Accomplishments

In an interview with Cindy Swisher, chief financial officer of EBDI, we were able to recount the deliverables of phase 1 over seven years. The Project relocated nearly 750 households with eminent domain, a process that included comprehensive family advocacy and supportive services, and relocation counseling. The homeowners received a \$157,000 average increase of family net worth, and renters received, on average, five years of rental subsidy. All relocated households were case managed for five years post-relocation.

A total of 426 units of new and renovated housing was completed, as well as an additional 521 units in the 929 North Wolfe Graduate Student Housing building owned by EBDI, with a ground lease with JHU. Other completed projects include 686,000 square feet of commercial and 38,000 square feet of retail space, including The Harbor Bank of Maryland, Walgreens and Starbucks. An additional 20,000 square feet is soon to be delivered in the 194-unit Marriott Residence Inn.

The East Baltimore Community School was the first new school built in Baltimore in 25 years and was completed in East Baltimore in 2014. The seven-acre campus includes the Henderson-Hopkins K–8 grade school, a Family Support Center, the Weinberg Early Childhood Center and shared spaces for the community. Eager Park is a

completed \$12.5 million, five-acre park that features a pavilion, amphitheater, water fountain, green space, and a KaBOOM! Community playground, and includes arts and cultural activities for the community.

More than 6,400 construction jobs and more than 1,200 permanent jobs have been created since the beginning of the project. Thirty-three percent have gone to City residents; 34 percent of \$436 million in construction contracts have been awarded to Minority Business Enterprises firms and 35 percent to Local Business Enterprises firms.

Public funds totaling more than \$60 million have been invested so far in new infrastructure, including water and sewer, 1.5 miles of new streets, utilities, lights, sidewalks and trees. More than \$600 million of private investment has been made in commercial and residential projects. The Project still has Master Plan goals in the pipeline, with another 350 housing units under construction in the next six to 12 months. EBDI's initial plans for 1,500 new mixed-income homes, retail and restaurants, and a grocery store are still underway.¹⁹

Innovative Redevelopment Strategies

Most large-scale redevelopment and reinvestment projects depend on innovative financing and the leadership of local stakeholders and policymakers. The Project stands out because of its commitment to combine economic, community and human development strategies for the benefit of area residents, businesses and surrounding neighborhoods.

For the purposes of this paper, we focused on the financing strategies, however, it is important to note that AECF participation, both financially and with expertise and leadership, in the Project was initiated for the purpose of safeguarding the community and human development strategies for the area residents.

Innovative financing may ebb and flow with the changing market and project conditions. As the Project evolved, primary needs included land acquisition and responsible relocation for the residents. Affordable housing, a new K–8 school and an early learning center were central development goals connecting people to place. The 2008 market conditions were significantly affected by the collapse of the real estate market, which led to a need for creative financing solutions. The series of transactions that financed the initiative proved central to the reality of redevelopment and the roles of JHU and AECF required flexibility and creativity to sustain the Project (see Appendix C).

Philanthropic Investment and Leadership

AECF detailed the transactions in which the foundation played a role in order to provide guidance for the philanthropic community, local government, lenders and developers in similar efforts. AECF's report, "Innovative Philanthropic Financing for Community Change," is intended as a principled guide for replication by philanthropic organizations.²⁰ In addition to traditional grant funding, AECF extended credit in creative ways, and more importantly, at critical times, and secured EBDI as an organization able to manage the redevelopment and subsequently have the track record to be credit-worthy. This is no small feat given the HEBCAC was the original organization working to rehabilitate the neighborhood and was not able to undertake the volume of the needs or grow into an organization able to lead the redevelopment.

AECF provided both debt and equity financing and leveraged program-related investments (PRIs) to support other debt and equity investments in the Project. PRIs leveraged funding through NMTCs and TIF bond financing, and the funds provided the capital for EBDI in its role as real estate developer, as well as the funds for school construction and financial benefits to residents. AECF's UPS stock from the founder, James Casey, was used as collateral and the resulting loans leveraged equity investment for EBDI and enabled the Project to continue when market conditions and Project risk proved perilous for private investors. City TIF bonds were initially envisioned but bond buyers needed confidence that the tax increment could materialize, and the lack of confidence threatened the Project's progress. When tax-credit investors feared purchasing tax credits and feared an EBDI default, AECF guaranteed the loans as well as EBDI's indemnification of the recapture exposure.

AECF assumed a social venture capital investor frame of mind, focused on social impact returns of an improved neighborhood and improved lives for low-income families. AECF further asserted leadership on the board of EBDI, safeguarding the capital and the direction of the Project.

It should also be noted that financing intermediaries Enterprise Community Investment and The Reinvestment Fund provided capital via NMTCs. AECF assets were used to secure funding streams for equity in EBDI, and financial institutions played a role with their community-based organizations. Bank of America's Community Development Corporation, PNC Bank and PNC New Markets Investment Partners provided debt financing, repayable with interest at the end of seven years together with equity investment.

University Investment and Leadership

JHU as employer, purchaser, economic developer, brand holder and real estate developer played a significant role in equity investment, and created unique business relocation incentives through its purchasing power. The branding of a hotel proved critical to the initiation and realization of that goal. University anchoring of redevelopment projects is fairly common across the U.S. and Europe. Higher education institutions are at the nexus of economic growth in cities and regions. The relationships between and among traditional economic development organizations, government, business and universities are central to examples of new campuses focused on technology commercialization and public-private research in synergy with the universities' programming. As a result, universities become primary partners for community opportunity and are able to leverage not only education, talent and expertise, but also research and technology development and place-based strategies for community development. Universities are often placed in the role of anchoring redevelopment in a community in coordination with their own growth. The relationship between university and philanthropy for purposes of place-based community strategies is still evolving and has become more relevant with increased economic pressures and the growing complexity of community needs.

The JHU partnership with EBDI, AECF and the City has been characterized by a shared vision and commitment to a long-term process where the partners assume various roles of real estate developer, financier and economic developer in efforts to create timely financing options to redevelopment.

About the Authors

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Appendices

Appendix A

Proposed East Baltimore Development Initiative Capital Structure – Phases 1 and 2²¹

Investor	Funding	Capital Contribution
Private Developer Investment	\$ 1,467,350,000	83.1%
Tax Increment Bond Financing	\$ 44,326,166	2.5%
New Markets Tax Credit Debt and Fees	\$ 46,820,000	2.7%
Federal Funds	\$ 37,735,100	2.1%
State of Maryland	\$ 42,075,000	2.4%
Baltimore City	\$ 62,601,000	3.5%
Other Foundations	\$ 10,250,500	0.6%
The Annie E. Casey Foundation	\$ 33,211,719	1.9%
Johns Hopkins University	\$ 21,551,168	1.2%
TOTAL	\$ 1,765,920,653	100.0%

Appendix B

Phase 1 Actual Funding Sources

I. Public Investment

Total = \$450.4 million

- a. The State of Maryland authorized a TIF District with the Project that allowed tax revenue resulting from the redevelopment's added value to be reinvested in the initiative. Subsequently, the City issued both taxable and tax-exempt TIF bonds that totaled more than \$85 million and that are now held by AECF and other investors. The TIF bonds were intended, in part, to provide EBDI with sufficient funds to repay the first NMTC that held the credit enhancement of AECF assets. When in 2009, the TIF bonds could not be sold on the market, AECF stepped in and bought \$23.6 million of the bonds. Because certain elements of the Project did not qualify as strictly public use, some of the bonds were issued as taxable bonds.
- b. \$53 million of State Capital funds were used to pay for property acquisition, demolition and infrastructure upgrades through the Defense Base Realignment and Closure (BRAC) Commission's Revitalization and Incentive Zone Program, and represents real property tax credits (mainly Historic Tax Credits) granted by the state.
- c. The 1812 Ashland Ave. building was financed with about \$33 million in federal New Markets Tax Credits, with the state also providing a \$5 million low-interest loan and the Department of Business and Economic Development providing a loan of \$5 million to EBDI for infrastructure improvements.
- d. The City issued \$30 million of General Obligation (GO) bonds to finance demolition, infrastructure improvements and water/wastewater infrastructure. In addition, the City and State issued a total of \$15 million in GO bonds to help finance the construction of Henderson-Hopkins School.
- e. The U.S. Department of Housing and Urban Development (HUD) provided EBDI with a \$21 million Section 108 loan to be used to demolish abandoned row homes, renovate houses and finance construction of mixed-income rental units; these funds are to be repaid from Community Development Block Grants. In addition, HUD HOME funds provided a \$5.5 million grant allocated for site acquisition, site improvements, demolition, relocation, and other necessary and reasonable activities related to the development of non-luxury housing. The Project also received \$6.4 million in HUD housing vouchers (rent subsidies) for low-income tenants used as part of the phase 1 relocation program.
- f. The Maryland Department of Commerce provided a \$4 million grant from its Sunny Day fund, which supports economic development opportunities that create significant capital investments in areas of high unemployment as well as retention of existing jobs.
- g. The Project received \$9 million Federal Transportation funds for road reconstruction and \$700,000 from Federal Empowerment Zone funds.
- h. The Shelter Group, the private developer of the Parkview at Ashland (74 senior apartments), received a \$1 million FHA Mortgage, while The Penrose Group received \$3 million in state rental housing funds for its Chapel Green apartments (63 mixed-income apartments and townhouse). Chapel Green, Parkview @ Ashland and Ashland Commons (78 apartments developed by The Shelter Group) received in total \$2.8 million in LIHTCs, which were sold to raise \$26.7 million in equity.
- i. The State of Maryland spent \$171 million on the construction of a new Department of Health and Mental Hygiene building at 201 West Preston Street.

II. Private Investment

Total = \$217.6 million

- a. Forest City is a group of national and local real estate developers that were selected to be the Master Developer of the Project. The new entity, Forest City-New East Baltimore Partnership, invested a total of \$23 million into the Project with this amount representing the equity interest in the completed Rangos Life Sciences Building that they lease to various parties (including JHU), and the initial equity for the 1812 Ashland Avenue building, a 170,000 square-foot mix of labs and offices.
- b. Rangos Life Sciences Building had a total construction cost of \$115 million and was partially funded by Forest City-New East Baltimore Partnership with some of the remaining construction cost coming from a \$54 million gift from the John G. Rangos Sr. Family Charitable Foundation to EBDI and a \$1 million gift from the Greater Baltimore Committee (see below). Opened in 2008, it houses Johns Hopkins School of Medicine Institute for Basic Biomedical Sciences, the Howard Hughes Medical Institute and Lieber Institute of Brain Development.
- c. The roughly \$65 million project at 1812 Ashland Avenue is a 163,000 square-foot office and lab building, where JHU and Johns Hopkins Hospital System affiliates are the primary tenants. The 1812 Ashland Avenue property also houses the 30,000 square-foot business incubator called FastForward East. The 1812 Ashland Avenue building was financed with about \$43 million in federal and state funds (see Public Investment above).
- d. The Johns Hopkins Institutions (JHI) spent a total of \$69 million for the construction of The 929, a 321 unit high rise that is used primarily as housing for JHU graduate students. In addition, JHI spent an additional \$38.2 million for a 10-story parking garage with 1,490 parking spaces and with an additional 11,000 square feet of retail space on the ground level.
- e. The Shelter Group, a private development company, owns and financed the Parkview @ Ashland and Ashland Commons market rate apartments; the total project cost of the two apartment buildings was \$21 million.
- f. Chapel Green apartments and townhomes is owned and financed by The Penrose Group, a private development company. The total project cost of the both the apartment and townhome buildings were \$16 million.
- g. The Johns Hopkins Berman Institute of Bioethics acquired an 11,000-square foot former police station and vacant adjacent lot from EBDI for \$1.6 million, and subsequently spent an additional \$2.9 million on restoration and expansion of the historic structure.
- h. The Verde Group, a Baltimore-based green builder, spent \$2.2 million for the acquisition and renovation of 20 row houses along McDonogh Street that once completed were listed for sale for \$199,000 to \$225,000. The homes were sold only to owner-occupants, and each row house had a 10-year property tax credit that capped the assessed value at its pre-renovation value.
- i. The Townes at Eager is a five-unit residential condominium project built by A&R Development for \$1.4 million; the average sales price of the condos in the building was \$280,000.
- j. Maryland Institute College of Art (MICA), the oldest continuously degree-granting college of art and design in the nation with nearly 3,500 students, spent \$1.3 million for the acquisition and renovation of a historic City Firehouse, which houses MICA's operations department.

III. Foundation Investment Total = \$173.5 million

- a. The John G. Rangos Sr. Family Charitable Foundation made a \$54 million gift to EBDI to fund part of the construction costs of a 278,000 square foot state-of-the art facility for advanced research companies to perform medical breakthroughs.
- b. AECF contributed \$39.5 million towards phase 1 of the Project, (not including their purchase of \$23.5 million of TIF bonds) with AECF agreeing to grant \$20 million to EBDI to retire a portion of the NMTC loans that held the credit enhancement of AECF assets, \$8.2 million to EBDI to pay for infrastructure costs, \$5 million in supplemental relocation costs for displaced residents, \$3 million for Henderson-Hopkins School (plus a \$21.25 million bridge loan for the completion of the new school that was subsequently repaid), and \$3.3 million for programmatic and operational expenses.
- c. JHI provided \$34.6 million in loans and grants primarily for Henderson-Hopkins School (\$12.6 million), donated land and other assets (\$13.2 million), infrastructure costs (\$3.8 million) and funds for supplemental relocation costs for displaced residents (\$5 million).
- d. Harry and Jeanette Weinberg Foundation provided a total of \$15.8 million, mainly for the construction of the Harry and Jeanette Weinberg Early Childhood Center but a portion went to help fund the Henderson-Hopkins School.
- e. The Atlantic Foundation provided grants and gifts totaling \$12 million to fund health, learning and family services efforts to provide community benefits to residents of Middle East.
- f. Goldseker Foundation gifted \$900,000 to EBDI consisting of a \$200,000 initial revitalization grant and \$400,000 for planning grants with addition grants of \$300,000 for core operating support.
- g. Other gifts and grants were as follows: Abell Foundation provided EBDI with \$75,000 and other local foundations contributed a total of \$16.7 million, including Legg Mason Charitable Foundation, T. Rowe Price Associates Foundation, Greater Baltimore Committee and 10 other foundations.

Total Phase 1 Funding Sources = \$841.5 million

Appendix C

Diagram 1: Financing Tools, Projects and Actors in Phase 1 Redevelopment of East Baltimore

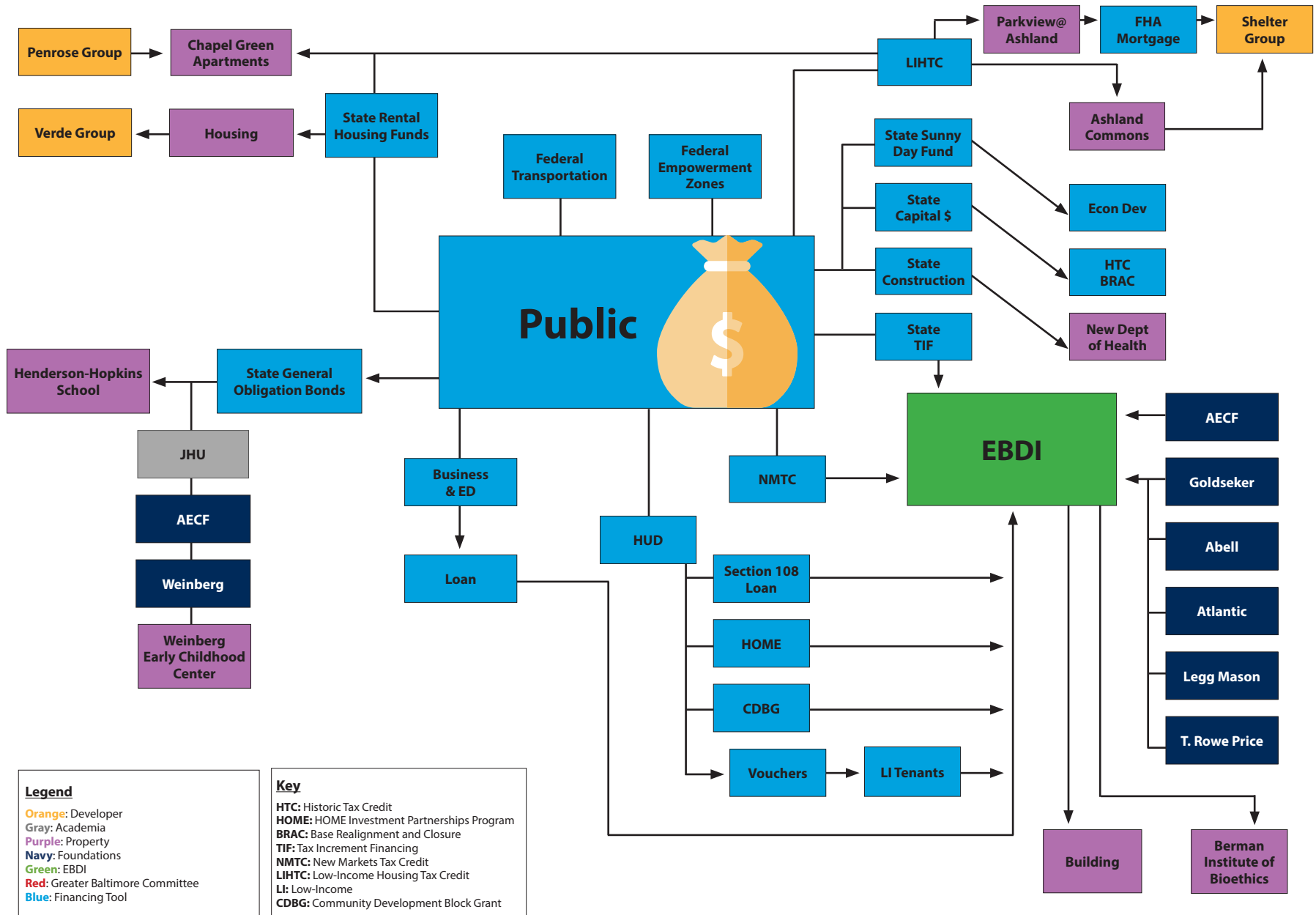
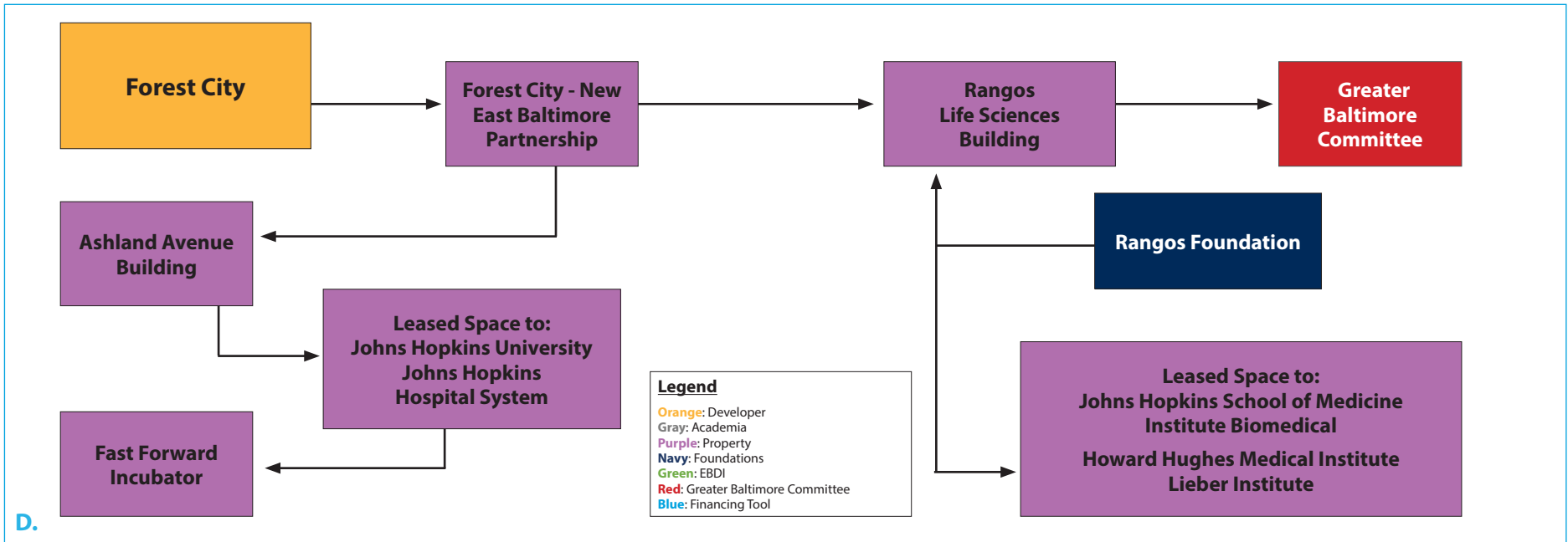
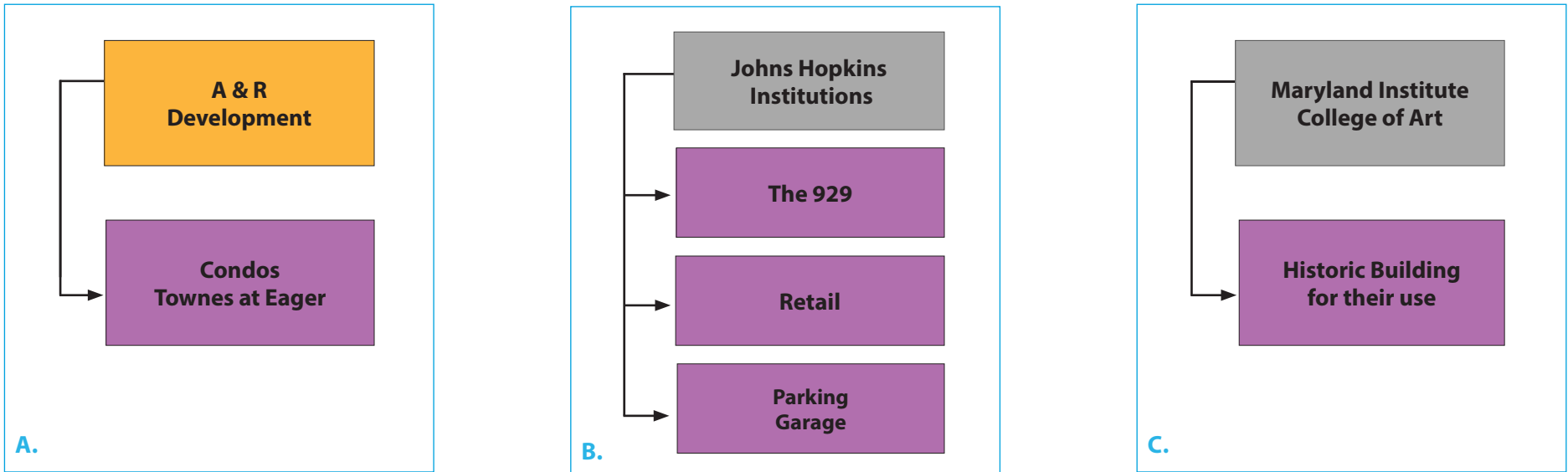


Diagram 2: Financing Tools, Projects and Actors in Phase One Redevelopment of East Baltimore –

A&R Development and Forest City engaged in redevelopment of property within the scope of phase 1. The Johns Hopkins Institutions and the Maryland Institute College of Art redeveloped buildings and property within the scope of phase 1.



Endnotes

- 1 The New York Times (March 18, 2014), "Reading, Writing and Renewal (the Urban Kind)," Michael Kimmelman.
- 2 Interview with Andy Frank, special assistant to the president, Johns Hopkins University, July 7, 2017. On September 15, the Weinberg Foundation announced a \$15 million, multiyear commitment to East Baltimore Development Inc. to support neighborhood residents by strengthening and expanding opportunities for children from birth to 18-years-old, workforce initiatives and programs for older adults.
- 3 Telephone interview with Tony Cipollone, president and CEO of the Gorman Foundation, and former vice president for Civic Sites and Initiatives at the Annie E. Casey Foundation where he was in senior management for 20 years, April 7, 2017.
- 4 Andy Frank interview.
- 5 Andy Frank interview.
- 6 Tony Cipollone interview.
- 7 "Enhancing New Markets Tax Credit Pipeline Flow: Maintaining a Continuous Deal Flow In Spite of Funding Gaps and Market Volatility," (October 2010, Federal Reserve Bank of San Francisco, Working Paper 2010-06), Patrice M. Cromwell, Kevin Leichner, page 49.
- 8 Maryland Eminent Domain Laws can be found in Title 12 of Code of Maryland. Subtitle one of Title 12 contains the general provisions and subtitle two contains provisions regarding relocation and assistance. All proceedings for the acquisition of private property for public use by condemnation are governed by the provisions of Title 12.
- 9 Interview with John Maneval, Deputy Director Community Development Administration, Multifamily and Business Lending Programs, Maryland Department of Housing and Community Development, April 18, 2018.
- 10 The Daily Record (January 30, 2011), "The Muddled Money Trail of the East Baltimore Development Project," Melody Simmons and Joan Jacobson.
- 11 Journal of Higher Education Outreach and Engagement (Vol. 10, 2005), "East Baltimore Revitalization Project: Opportunities and Challenges in Transforming an Urban Neighborhood," Patrice M. Cromwell, Robert P. Giloth, and Marsha R.B. Schachtel, page 113.
- 12 "The Workforce Supply and Demand Characteristics of the East Baltimore Development Inc. Redevelopment Effort," University of Baltimore, Jacob France Institute, Richard Clinch, June 2009.
- 13 Ibid.
- 14 Ibid.
- 15 Ibid.
- 16 Next City (July 29, 2013), "The Great Baltimore Raze and Rebuild," Dax-Devlon Ross.
- 17 Ibid.
- 18 The Daily Record (January 30, 2011), "The Muddled Money Trail of the East Baltimore Development Project," Melody Simmons and Joan Jacobson.
- 19 Interview with Cindy Swisher, Senior Director of Finance, EBDI, June 30, 2017.
- 20 The Annie E. Casey Foundation (2004). "The East Baltimore Revitalization Initiative: Innovative Philanthropic Financing for Community Change." Baltimore, MD: Prepared for the Annie E. Casey Foundation by Paul Brophy of Brophy & Reilly LLC and Tom Waldron of the Hatcher Group. Retrieved from <http://www.aecf.org>.
- 21 "Enhancing New Markets Tax Credit Pipeline Flow: Maintaining a Continuous Deal Flow In Spite of Funding Gaps and Market Volatility" (October 2010, Federal Reserve Bank of San Francisco, Working Paper 2010-06), Patrice M. Cromwell, Kevin Leichner, page 51.

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