Surcharge on downtown properties could rise

*Downtown group looks to increase fee on commercial property to keep programs afloat and fund new capital projects*

Jamie Smith Hopkins
April 19, 2010

Business leaders and landlords are proposing to raise a surcharge on downtown commercial properties this summer to make up for falling property values and to help pay for capital projects such as improving parks, installing additional video cameras and making the city more pedestrian-friendly.

The increased role of the private sector comes as the city may be forced to cut public services. The Downtown Partnership of Baltimore, which runs surcharge-funded programs aimed at keeping the area clean and safe, estimates the proposal would raise more than $1 million a year. That translates to about $300 a year for a three-story mixed-use building and $95,000 for a large Class A office building of 500,000 square feet.

The surcharge funds municipal-type services, from emptying garbage cans to maintaining green spaces. As city government officials scramble to cover a $121 million operating budget shortfall and have less local money to devote to capital projects, businesses will need to step up if they want upgrades in an area that draws more than 150,000 people every day, the Downtown Partnership says.

"There's just not enough capital money to go around for the projects we need," said Kirby Fowler, president of the Downtown Partnership.

"This is a way for downtown to help itself," added Michael Evitts, a spokesman for the nonprofit group.

While privatizing public services in cities has been a trend for years, John K. Mcllwain, a senior fellow with the Urban Land Institute in Washington, hasn't heard of businesses in other cities offering to shoulder more costs in the wake of the severe economic downturn.

"It's a difficult thing to try to do because the businesses themselves are suffering," he said. "If you push it too far, you're simply going to shut down more stores."
The recession pushed office vacancies within a mile of downtown Baltimore to nearly 20 percent last year. McIlwain thinks the proposed surcharge increase — and the potential impact on businesses — is pretty modest. The downside is that limits the amount of capital work it could finance.

"When everybody’s hurting, how much can you pay to do the longer-term capital improvements?" he said. "Those are tough calls."

The current surcharge is 14.39 cents per $100 in assessed property value, paid by commercial property owners — or their tenants, if that expense is passed on — in the Downtown Management Authority district. The area stretches into parts of Mount Vernon to the north and is roughly bounded by Interstate 83 on the east, Greene Street on the west and Conway Street on the south.

The Downtown Partnership's board has endorsed raising the charge to 21.39 cents per $100 in assessed value. The Downtown Management Authority board, made up of business leaders and property owners, also is in favor of such an increase.

"We know it's something that has to be done," said Michael Haynie, managing director of the Tremonts, the hotel and meeting facilities on St. Paul Place and Charles Street. He sits on the management authority board as a property owner representative. "Downtown is an investment for us, and we have to bite the bullet."

Though the proposal would increase the surcharge nearly 50 percent, the actual increase in owners' bills could be significantly smaller because of declining market values.

The average price per square foot of commercial properties sold in downtown Baltimore during the first three months of the year was about 30 percent less than the average two years earlier, according to real estate information firm CoStar Group. Assessments lag behind the market, but commercial real estate brokers are warning the Downtown Partnership to expect less from the surcharge in the coming years if it isn't raised.

The 7-cent proposed increase would bring in almost $2.2 million a year if assessments don't change. A 15 percent drop in the assessable base — what the Downtown Partnership expects — would shave the net increase to about $1.2 million.

Declining property values would mean less ready cash for capital projects, but the Downtown Partnership also is seeking more authority to borrow money.

Robert Manekin, a Downtown Partnership board member who works in commercial real estate, thinks the proposed surcharge increase is necessary —
and probably too small. A 10-cent increase would be better, he said. He wants to see capital improvements downtown, and he's anxious to avoid backsliding.

"There are those of us who remember what the downtown was like before the Downtown Management Authority was created," said Manekin, a senior vice president at Manekin LLC, a commercial real estate services firm that represents landlords and tenants, "and we clearly do not want to return to that condition."

James A.C. Kennedy, chief executive of money manager **T. Rowe Price Group**, a major downtown employer that leases its headquarters tower on Pratt Street, said he's "100 percent" in favor of a surcharge increase. "The incremental fees they're asking for are very worth the money," he said. "We're more than willing to pay our fair share."

The surcharge went into effect in 1992, the last time the city was struggling under the aftereffects of a recession and real estate downturn. Businesses and property owners were concerned that downtown revitalization would stall if they didn't create a fund to keep the streets clean and safe.

Now the Downtown Partnership has a wish list of projects looking for funding. Installing more video cameras and pedestrian-level lighting for safety. Taking down the neglected Baltimore Street skywalk. Creating a park with fountains on President Street.

"We don't want the traditional core of downtown to have a dated feel to it," said Fowler, the head of the partnership.

Businesses are already raising money for another long-wanted project — removing the tall berms along Pratt Street, which hem in pedestrians and drive property owners crazy, Evitts said. But that's another item on the to-do list for a capital fund if the fundraising effort falls short.

The city's proposed capital budget does have some money for downtown projects, including work to make Hopkins Plaza at Baltimore and Charles streets a more inviting place to gather. But sources of capital-project funding that aren't already earmarked are down, in some cases to zero.

"It's a pretty austere kind of budget," said Thomas Stosur, the city's planning director.

The Downtown Partnership's budget, along with any surcharge increase, must be approved by the city's Board of Estimates. That decision is set for April 30. A public meeting is planned next Tuesday for downtown property owners and tenants to weigh in.

Evitts said all property owners have been notified by letter. Three have
complained, but they were mollified to learn that their increases would work out to less than $150 even if their assessed values don't drop, he said.

Councilman Bill Henry, the City Council's representative to the planning commission, said the surcharge proposal "shows an incredible amount of forethought."

"I see this as a willingness among downtown businesses to reinvest in the city," said Henry, who represents parts of North and Northeast Baltimore. "That's going to be a good thing for all of us."

A small sacrifice to maintain downtown

Andy Green

April 20, 2010

The attitude of downtown property owners that they have such a vested interest in the health of the city's business core that they should effectively raise their own taxes to fund continued safety and aesthetic improvements is heartening. At a time when everyone seems to want more services and lower taxes, it's nice to see people recognize that sometimes our own good is served by sacrificing for the collective interest.

Critics will surely note that it's easy for the property owners to push for an increase of 7 cents per $100 in property value in the Downtown Partnership's assessment; after all, they can just pass the costs on to their tenants. And it is certainly true that tenants may be finding it harder to stay downtown, especially since one of the responses Mayor Stephanie C. Rawlings-Blake has proposed to the city's budget crisis is to increase parking taxes.

Even if the property owners pass all of the cost on to their tenants in the form of higher rent, the impact is likely to be minimal. For a large, Class A office building, the increased fee would amount to about 19 cents per square foot. According to the Baltimore Business Journal, the going rate for such office space is $39.44 per square foot, so the increase would amount to less than half of 1 percent.

But the potential benefits are substantial, not just for the businesses but for the city as a whole. The projects the Downtown Partnership has in mind

assessment increase is approved by the Board of Estimates) include more lighting and surveillance cameras to improve security and creating or improving parks and public spaces downtown. Baltimore can't afford to let downtown, the part of the city most visible to the world, deteriorate, but the city can't afford to make the kind of investments now that will make sure that doesn't happen. The members of the Downtown Partnership deserve credit for showing how a small collective sacrifice can make a big difference.

**Cost of a Clean Downtown Baltimore is Going Up**

Nicholas Sohr
April 20, 2010

*Bill Crouse (left), executive chef of Sotto Sopra, and David G. Tarlow of Tarlow Furs say they don’t mind the nearly 50-percent bump in the property tax surcharge being sought by the Downtown Partnership of Baltimore.*

To keep their clean teams cleaning and make the city's green spaces greener, Downtown Partnership of Baltimore Inc. is seeking a nearly 50 percent bump in the property tax surcharges levied on downtown property owners.

The increase, which must be approved by the city’s Board of Estimates, would boost the nonprofit’s revenue stream, which has slumped along with the downtown real estate market.

“Nobody likes to increase taxes or surcharges, but in order to move downtown forward, the [Downtown Partnership] board voted to do so,” said partnership President J. Kirby Fowler.

The 7-cent surcharge increase to 21.39 cents per $100 of assessed value on commercial properties would go into effect July 1.

Many property and business owners said the added burden would be more than offset by the benefits of keeping the partnership afloat.

“The little bit I have to pay, it’s worth it,” said Bill Crouse, executive chef of Sotto Sopra, an Italian restaurant on Charles Street in Mount Vernon. “Hopefully it doesn’t go up any more, but we’ve benefitted from it.”
Crouse said the restaurant has cut about 60 percent of its advertising budget, relying more on social networking sites like Facebook and Twitter, and the publicity and business driven by the partnership. The group directs tourists to Sotto Sopra, includes the restaurant in events and helps Crouse land television spots.

“If we’re still paying into the Downtown Partnership, it’s obviously worth it for us,” Crouse said.

Tarlow Furs LTD has survived on Charles Street for nearly seven decades as the area cycled through boom and bust, David G. Tarlow said.

“It was very, very upscale, then it went down like that," said Tarlow, his thumb pointing toward the floor, “and now they’re finding out running to shopping centers isn’t the answer.”

The street wouldn’t have been revitalized without Downtown Partnership, he said.

“They’ve done a hell of a job,” Tarlow said. “It’s worth it for everybody.”

Without the surcharge increase, Fowler said the partnership would be forced to cut back on its wide range of services, many of which it has taken off the cash-strapped city’s plate during its nearly 20-year existence.

The city reimburses the partnership for its cleaning services. The appropriation fell from $510,000 in fiscal 2009 to $220,000 this year.

“Even the $510,000 was nowhere near reimbursement for our services,” Fowler said.

And, as property values declined in the city, in recent years, the surcharges tied to those values fell, too, leading the partnership to project a $400,000 hole in its $7.3 million budget.

Fowler said the surcharge increase is expected to bring in between $1 million and $1.7 million, enough to make up for a flagging real estate market and leave some left over for projects around the city.

“In the past, we’ve been asking the city and state for capital funds. But that source of money is drying up rather quickly,” Fowler said. “If we want to see more green space, more video cameras, better lighting downtown, our board decided to move forward with the surcharge increase.”

The City Council is also considering legislation that would give Downtown Partnership more flexibility in setting its fees and ease borrowing restrictions to give it the ability to tackle larger projects.

“These are business leaders [on the partnership board] that recognize you have to invest in order to attract business,” said Councilman William H. Cole IV, who introduced the bill. “They want to do it themselves. They realize the government doesn’t have a lot of money to be throwing around in commercial areas when
they’re talking about laying off police officers and closing rec centers and firehouses.”

Downtown Partnership’s to-do list includes improvements to the Morris Mechanic Theater, removing the pedestrian overpass at Baltimore and Hanover Streets, maintenance of a dog park on Baltimore Street and tree plantings on some St. Paul Street medians.

“We can’t act on any of these grand visions without money,” Fowler said, “and these grand visions need to move forward.”

**Downtown Partnership Proposes Fee Hike for Building Owners to Avoid Service Cuts**

Daniel J. Sernovitz
April 20, 2010

Downtown Partnership of Baltimore Inc. could be forced to lay off employees and cut back on services such as trash collection unless it is able to increase the levy it collects from commercial buildings.

The group, which funds improvement and marketing projects promoting downtown shops and businesses, wants to increase the surcharge on commercial properties by 7 cents to $21.39 cents for every $100 of assessed value, Downtown Partnership spokesman Michael Evitts said.

That could amount to an increase ranging from $300 a year to $95,000 depending on the size of the building.

With a third of city properties set to be reassessed this year, the partnership is bracing for what could be as much as a 15 percent drop in commercial property values, which in turn would bring down the amount of subsidies it collects from the owners of those properties.

The partnership has scheduled a public hearing April 27 to discuss the increase.

The board of directors for the Downtown Management Authority, which is the arm of Downtown Partnership that provides downtown improvements, voted unanimously in favor of the increase last month. The measure must also be approved by Baltimore City Council.

Councilman William H. Cole IV introduced a city council bill Monday authorizing the increase. The bill would also allow the group to borrow up to $20 million for
capital improvements such as creating parks and other streetscape improvements.

The assessment does not include residential buildings or properties outside downtown Baltimore. There are about 1,400 commercial property owners in the city, but that figure includes nonprofits like Johns Hopkins University that are not subject to the levy, Evitts said. The tax increase comes at a difficult time for downtown building owners, facing one of the highest office vacancy rates in a decade.

Downtown Partnership President J. Kirby Fowler Jr. said in a telephone interview he believes downtown property owners support the measure. Fowler noted downtown’s vacancy rate, approaching 20 percent, has not been as high since the last real estate slump in the early 1990s. But he said it was building owners at that time who lobbied for the tax to raise money for downtown’s upkeep, fearing a spike in crime, trash and graffiti would drive businesses away from Baltimore.

That is the case this time as well, he said, and the group is hoping to fund a number of projects including the demolition of the Baltimore Street skywalk by the Mechanic Theatre, streetscape improvements along Pratt Street, and the creation of small parks like the one built at Center Plaza at Fayette and Charles streets.

The group relies on a variety of sources for its budget, which was about $5.5 million in 2007, according to its most recent Form 990 filed with the Internal Revenue Service.

About 52 percent of that comes from the property surcharge, another 15 comes from membership dues, and 14 percent comes from city grants. Downtown Partnership has already eliminated nine vacant positions because of the drop in city aid and falling property values.

The city is also struggling with its own financial problems, and the mayor and city council are in the midst of a budget process aimed at closing a projected $121 million deficit.

Evitts said he is expecting the city to cut back on the amount of money it gives to the partnership, but he said no one from the city has told his group how much less it is likely to receive.

The city contributed $510,000 to Downtown Partnership two years ago, which dropped to $220,000 last year but rose to $340,000 for the current budget year to end June 30, Fowler said.