August 11, 2016

Dear President Young and Members of the Baltimore City Council:

At the beginning of this year, Baltimore City Schools faced a $25 million loss of State education aid in their FY 2017 budget.\(^1\) While a portion of the funding loss was due to a drop in enrollment of nearly 2,000 students, the City’s increasing wealth also contributed significantly to the proposed loss of funding. While the Baltimore Education Coalition (BEC) fought hard over the ensuing six months to ensure the City and State provided more funding for Baltimore students and schools, helping to nearly close this year’s funding loss gap, City Schools eliminated 171 staff – many at the school level – for this coming school year due to these funding reductions and budget constraints.\(^2\)

BEC is thus deeply concerned about the impact the prospective Tax Increment Financed (TIF) development of Port Covington could have on State education funding. The increased assessed property wealth on the site would lead to significant State funding reductions for our schools, which would have serious effects on staff and programs. And because most of the future revenue from TIF projects is committed to repaying the TIF bonds, the City likely would not be able to make up for the loss of State education aid. To guarantee City students do not lose funding and resources due to wealth gains from Port Covington and other developments, BEC is asking the City Council to:

1. **Require** MuniCap to correct their initial analysis on the effect of Port Covington on City Schools’ State education aid. Before the City Council votes on the Port Covington legislation, MuniCap should provide an accurate estimate of the full impact of the 40-year Port Covington TIF agreement (see explanation below).

2. **Obtain** a guarantee from State leaders before authorization of the Port Covington TIF that the State education funding formula will be fixed to fully exempt TIF- and other City-subsidized-related wealth

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gains for Baltimore City. This guarantee that legislation will be passed to exempt these wealth increases, and thus eliminate the impact on State education aid, must come from leaders in both the executive and legislative branches. The City Council must then work closely with BEC, other advocates, the Mayor’s Office, and the State legislature to pass that legislation. It is essential that the full increase in value of the assessed property be exempted, not a partial amount; otherwise City students would still lose funding.

3. Add language to 16-0670 – Port Covington Bond Issuance or draft a Memorandum of Understanding that mandates the City to refund City Schools for any loss of State education funding due to property wealth gains within the Port Covington development district until the legislation passes and the State education funding formula is fixed so as to hold City Schools harmless.

4. Work together to ensure future City budgets include additional funding for City Schools that is lost at the State level due to wealth gains but not due to TIF properties (i.e. personal and business income increases, property assessment gains on non-TIF properties throughout the City).

State Education Funding is Decreasing, City Contribution to Education Remains Flat. The State education funding formula is wealth-equalized to address revenue disparities among low and high wealth districts in Maryland. Since Baltimore City has lower wealth compared to many other jurisdictions in the State, City Schools receives a greater percentage of its funding from the State, approximately 70 percent. Conversely, a jurisdiction like Howard County funds its school system mostly through local tax dollars due to its county’s high wealth, and receives approximately just 20% of its total funding from the State. However, each year, the State education funding formula calculates changes in district wealth, which alters the amount each school district receives. In 2015, the City’s property wealth grew by more than $1.3 billion and consequently, City Schools lost $11.4 million in State funding in FY 2016. In FY 2017, City Schools lost at least $5.2 million more due to local wealth gains. And with the exception of the $7.2 million additional funding the Mayor and Council approved for City Schools’ FY 2017 budget, City funding for its schools has been relatively flat over the past decades.

Port Covington Project Will Lead to Significant Losses in State Education Funding, but Total Unknown. Projecting the impact of the Port Covington development is difficult because changes in wealth affect almost all aspects of the State education funding formula. Plus, the funding formula considers the relative changes in wealth among all Maryland districts each year to determine changes in education aid. However, we do know the Port Covington development is projected to add an enormous amount to the City’s overall property wealth over time and that this will have a significant impact on City Schools’ State education aid. According to a recent MuniCap analysis, City Schools will lose a total of $315 million over the life of the Port Covington project. Our analysis shows that the impact will likely be at least double that,

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3 Advocates of the as-proposed Port Covington TIF have repeatedly claimed that a State fix is forthcoming. But there are two issues with this prediction. First, there have been no guarantees from State leaders in the legislature or by the Governor that a fix will occur; or agreement that the temporary legislation (HB 285) drafted by Del. Maggie McIntosh and passed into law this past legislative session will be permanently extended. Second, the current conversation around a State fix references the Maryland State Department of Education (MSDE) consultants working on a review of the adequacy of the State’s education funding formula. The Sept. 30, 2015 consultants’ recommendation regarding exempting property value increases from TIF projects was to propose that the State exempt just a portion of the wealth increase. The consultants specifically pointed to the State of Ohio, which “exempts 65 percent of property in a TIF from the calculation of a district’s fiscal capacity.” This solution is not acceptable. We need a 100 percent fix at the State level that exempts all TIF property for low-income jurisdictions like Baltimore City. The MSDE Adequacy Study consultants’ final report is due fall, 2016. Glenn, William J., Mike Griffith, Lawrence O. Picus, and Allan Odden, “Analysis of School Finance Equity and Local Wealth Measures in Maryland,” Picus Odden & Associates, Sept. 30, 2015, revised Dec. 11, 2015, pg. 30-31.


not least because the MuniCap analysis fails to consider the impact of wealth increases on three major programs in the State education funding formula (State Compensatory Education, Limited English Proficiency, and Special Education). Reductions in State aid to those programs would add another several hundred million dollars in negative impact to MuniCap’s $315 million estimate.

Based on the last two years of available data on Baltimore City, the State legislature’s Department of Legislative Services (DLS) estimates that for every $100 million gain in assessed property value, City Schools loses $1 million in State education aid. Using DLS’s rule of thumb, Port Covington could cumulatively cost City Schools up to $1.6 billion in State education aid over the life of the project (see attached document). Whatever the total impact, we know City Schools cannot afford funding loses of this magnitude.

**Future State Education Funding Losses Due to City Wealth Gains Must Be Addressed.** Looking toward the future, City Council, BEC, and advocates must work together to ensure that our children are not unfairly stripped of funding that is meant for their classrooms. To that end, BEC is asking the City Council to ensure our schools will not lose State funding as a result of TIF projects and other factors that contribute to City wealth gains. As real gains in City wealth accrue from non-subsidized properties and personal income, BEC asks the City Council to fight to ensure that schools get their fair share of this increased revenue in the future.

BEC, City students, and families have been highlighting inadequate, and in some cases grievous, conditions in City Schools for nearly a decade as funding continues to trend downward. Ensuring City students receive the economic resources necessary to provide excellent schools equipped with high quality teachers and art and music programs must be among the Baltimore City Council’s highest priorities as it considers and makes decisions on economic development projects. It is unfair for wealthy developers to profit while City students lose. Given the scale of the Port Covington development and its potential impact on our schools, the time to act is now.

We look forward to hearing your response to our requests. You can reach us at patinella@aclu-md.org and esaylor75@gmail.com, respectively.

Sincerely,

Frank Patinella  
Co-Chair of the Baltimore Education Coalition

Elizabeth Saylor  
Co-Chair of the Baltimore Education Coalition