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**MARYLAND ARTS AND ENTERTAINMENT DISTRICTS:  
A PROCESS EVALUATION AND CASE STUDY OF BALTIMORE**

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## **Acknowledgments**

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We want to emphasize that this analysis is not meant to evaluate the program's impact or assess district "success." Rather, our scope is limited to the design of tax credits and the extent to which they are being used, with findings based on available data and interviews focusing on Baltimore's districts. While many people lent us their opinions and shared experiences concerning the districts, the conclusions and recommendations are ours alone.

## Executive Summary

Created in 2001, the Maryland Arts and Entertainment (A&E) District Program provides tax incentives to encourage arts-related investment. The program is roughly premised on the Creative Class theory, which posits that attracting creative residents to diverse areas offering unique experiences can spur economic development. While the theory has been criticized, the literature suggests that the arts sector can promote increased private investment, tourism and neighborhood revitalization. State incentives for Maryland districts include a property tax credit for arts-related renovations to commercial, manufacturing or industrial property; an income tax deduction for artwork produced and sold in the district; and an admissions and amusement tax exemption. While arts-related business is growing in some districts, available data suggests that tax incentives and dedicated state funding for districts are rarely used.<sup>a</sup>

Based on focus groups of Station North and Highlandtown stakeholders,<sup>b</sup> interviews,<sup>c</sup> and comments made during the Baltimore City Arts & Entertainment District Workshop held in June 2009,<sup>d</sup> we find that incentive use may be limited by both the design of the incentives and the financial and managerial capacity of local arts district managers. For example, the state's definition of artistic work is restricted to traditional mediums, while the income tax deduction itself may not appeal to lower-income artists. The property tax credit only benefits property owners making certain large-scale renovations and does not benefit most resident artists. While useful, the admissions and amusement tax exemption benefits only for-profit performance venues, which may not be the prime driver of growth in a district.

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<sup>a</sup> See Appendix A for data limitations.

<sup>b</sup> See Appendix B for focus group information.

<sup>c</sup> Interviews were held with state officials, district managers, business owners, artists, district residents, developers and others.

<sup>d</sup> See endnote 45 for details.

Finally, limited financial and technical support from the state may have reduced districts' capacity to market incentives. District managers cite challenges including the lack of consistent funding and paid staff. While the Maryland State Arts Council (MSAC) offers a Technical Assistance Grant, funds available for certain projects through the Maryland Economic Development Assistance Authority and Fund (MEDAAF) are underused. Changes in program administration at the state level and a current staffing shortage may limit technical support to districts. Case studies of Baltimore's Station North and Highlandtown A&E districts illustrate challenges and the role of resources and management capacity in district growth. The use of incentives appears to be relatively low in both districts; however, arts businesses are increasing in Station North while the Highlandtown arts district has stagnated.

To encourage art district growth, we make recommendations at the state and local level to improve tax incentive design and enhance state and local support. First, data collection on incentive use and the economic impact of the arts must be enhanced and coordinated between state and local agencies. The definition of artistic work should be broadened to facilitate greater use of the income tax deduction, while the property tax credit should be flexible enough to meet local needs. MSAC should hire a coordinator dedicated to the A&E program to promote the availability of funding sources and provide technical assistance to district managers. In Baltimore, we recommend a moratorium on new A&E district designation while current district managers market unique district identities; partner with anchor institutions, city agencies and local organizations to increase opportunities for artists; and develop an interactive website to link artists with resources. To support districts, the City should continue to promote affordability and property improvement.

## **Introduction**

In the United States, the economic impact of arts and culture is estimated at over \$166 billion in economic activity every year: \$63.1 billion in spending from organizations and \$103.1 billion in event-related spending by their audiences.<sup>1</sup> According to MSAC, the arts generated \$1.2 billion in the state in FY 2007.<sup>2</sup> To foster the growth of the arts and encourage economic development, states and localities offer incentive packages, fund museums and symphony halls, and designate arts and culture zones. Created in 2001, Maryland's A&E District Program offers a unique combination of tax incentives and is recognized as the first statewide initiative to encourage economic revitalization and improved quality of life through the arts.<sup>3,4</sup> In addition to the incentives, arts districts can access specific state funds for project and technical assistance.

In this study, we review the creation and implementation of the Maryland A&E District Program, using Baltimore's Station North and Highlandtown A&E districts as case studies. We review the theory connecting the arts to economic development, the legislative process that shaped Maryland's program, and its implementation. Our research draws on available literature, numerous interviews and focus groups, and state and Baltimore data. We also provide information on two arts-based revitalization strategies that can offer lessons for Baltimore.

## **The Arts and Economic Development**

To date, there is no single theory that connects the arts to economic development, which is generally measured through traditional human capital indicators such as educational attainment, employment, and wages.<sup>5</sup> Richard Florida attempted to assess the impact of the arts by emphasizing the creative aspect of human capital.<sup>6</sup> Florida argued that creative workers fuel innovation and economic growth. Using his Creative Capital index<sup>°</sup>, he found a high ranking of

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<sup>°</sup> Florida calculates the technology index by combining an innovation index (measured by patents granted per capital and a high-tech index (a number based on the Milken Institute's Tech Pole Index, measuring the size and concentration of sectors such as software, electronics, biomedical products, and engineering services); the talent

technology, diversity and tolerance correlated to a clustering of “the creative class.” Critics of the theory cite several issues. First, it is unclear whether creative individuals spur economic growth or whether growth draws creative individuals.<sup>7,8</sup> Secondly, Florida broadly defines “the creative class” to include occupations that require extensive education, suggesting that high educational attainment, rather than creativity, accounts for economic growth. When controlling for educational attainment, Glaeser (2004) found that the explanatory power of the creative class disappears. Finally, statistical tests show that creative class variables fail to correlate with growth in employment or wages.<sup>9</sup>

While the creative class may not drive economic growth, the arts sector may facilitate local economic development through both entrepreneurial and progressive strategies.<sup>10</sup> In the former, cities promote high-profile arts facilities and events to catalyze private investment and tourism.<sup>11</sup> Likewise, arts-oriented businesses such as galleries and theaters create jobs and facilitate access to locally-produced work. In the latter, cities attempt to broaden access to, and participation in, the arts by supporting local cultural production.<sup>12</sup>

The degree to which these strategies encourage economic development is unclear. Reports assessing the impact of the arts sector rely on conventional, narrow definitions of arts venues and participation such as attendance.<sup>13</sup> By failing to account for the impact of community-based programming, these reports may actually *underestimate* the economic impact of the arts.<sup>f,14</sup> For example, artist space developments typical in progressive strategies often entail rehabilitation, occupation of formerly-vacant space, and programs centered on cultural

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index based on the percentage of the population with a bachelor’s degree or above; and the tolerance index (gay index), measured by the concentration of homosexuals in a region.

<sup>f</sup> Efforts to measure cultural assets typically overemphasize mainstream venues, while cultural participation is understood to mean such features as attendance, observation, and consumption rather than teaching, learning, doing, and promoting. Measures are also inconsistent: some reports consider activities of both nonprofit and commercial arts organizations, while others exclude the latter. Without consistent measures and reporting over time, such studies yield little information on trends (Jackson et al. 2006).

participation and youth development. By improving an area’s physical and social environment, these projects likely deliver a positive but unmeasured economic impact.<sup>15,16</sup>

To better understand the impact of the arts on local economic development, we consider examples from Cleveland, Ohio and Washington, D.C. which incorporate entrepreneurial and progressive strategies to stimulate investment, tourism and revitalization.<sup>8</sup> In Cleveland’s Gordon Square Arts District, a revitalization project includes construction of one theater and the restoration of two theaters along a 15-block commercial corridor.<sup>17</sup> The anchor of the district, the Capital Theater, was renovated into an independent film house using New Market tax credits, local grants and loans totaling \$7 million.<sup>18</sup> Cleveland State University and the Cleveland Institute of Art are leading a project to attract design studios and showrooms, in part by offering consumer design workshops and speakers.<sup>19</sup> In the Detroit-Shoreway neighborhood, a community development corporation is creating a 10-block “artists village” by selling formerly foreclosed homes to artists and providing grant money for rehabilitation (Alter 2009). The nonprofit Building Bridges turns vacant storefronts into exhibition spaces; the Pop Up City initiative, meanwhile, introduces performance art into vacant lots and buildings. The city’s 2009 Ingenuityfest generated \$4.5 million in transactions; however, this impact assessment of the arts in Cleveland presumably employs narrow, traditional measures discussed above.<sup>h,20</sup>

To facilitate growth of the arts in Washington, D.C., the Cultural Development Corporation of DC (CuDC) created Flashpoint, a small-business, arts incubator in a mixed-use facility housing an art gallery, performance and office space, and shared business resources.<sup>21</sup> While Cleveland focuses arts development in one area, Flashpoint provides a central space and support for artists, arts organizations, and creative businesses across the city. As members, arts

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<sup>8</sup> We selected these cities based on a review of the literature and conversations with Mary Margaret Schoenfield of Americans for the Arts. We are not aware of a comprehensive review of arts district strategies in the literature.

<sup>h</sup> News articles refer to the study, but it is not publicly available.

organizations and creative business as may rent office space, while artists can rent gallery or performance space or pay to use business services or consultation.<sup>22</sup> Like other arts-based economic development initiatives, "success" is defined by the number of arts activities conducted and arts organizations using the facility. For example, in the last year, Flashpoint presented 16 art exhibits reaching 2,000 people.<sup>23</sup> Transferring any of these approaches to Baltimore requires an understanding of the current arts-based revitalization strategy of the state and the city. In the next section, we review the development and implementation of the state's A&E district program.

### *Arts District Legislation*

In designing Maryland's A&E program, legislators looked to a 1997 Rhode Island bill<sup>24</sup> that created an income tax deduction<sup>i</sup> and a sales tax exemption in a designated district in downtown Providence.<sup>25</sup> Concerns about potential revenue losses shaped Maryland's legislation. For example, legislators eliminated a sales tax exemption, but created an income tax deduction, which was considered "very symbolic."<sup>26</sup> Reports suggest that Maryland legislators knew the income tax deduction would do little to support artists directly.<sup>j</sup> Legislators also elected to fund certain projects in A&E districts through the existing Maryland Economic Development Assistance Authority and Fund (MEDAAF), although they considered creating a separate non-lapsing, revolving special fund to provide loan guaranties, private financing and technical assistance.<sup>27</sup> Maryland's 2001 legislation<sup>k</sup> ultimately created an income tax deduction for residing artists for profits from work produced and sold in the district; a property tax credit against local taxes for manufacturing, commercial or industrial buildings renovated for use as

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<sup>i</sup> Definitions and explanations for this and other terms used in this section are found in Appendix B.

<sup>j</sup> A fiscal note stated that no artists had taken the income tax deduction in the four years since the Providence district was established (Maryland Department of Legislative Services. Smart Growth – Arts and Entertainment Districts – Fiscal Note, Senate Bill 586, 2001 Session, 2001.

<sup>k</sup> House Bill 691 and Senate Bill 586.

housing for residing artists; and an exemption for admissions and amusement tax gross receipts for A&E enterprises or qualifying individuals.<sup>28,29</sup> The definition of “artistic work,”<sup>1</sup> also borrowed from Rhode Island, excludes digital art forms and work created for industry.<sup>30</sup> Eligibility for incentives changed slightly with subsequent amendments. These broadened the definition of “qualifying resident artists” to those who rent and own properties in the county in which the district is located;<sup>31</sup> expanded the property tax credit to buildings constructed or renovated for use by qualifying artists or A&E enterprises;<sup>32</sup> and altered the artwork definition to include production of original jewelry, clothing, or clothing design.<sup>33</sup> However, the legislation continues to exclude work created for industry.<sup>34</sup>

### *Incentive Use*

Available administrative data and interviews suggest that incentives have been rarely used. In each county, no more than 30 returns claiming the deduction have been filed in a single year; in most counties fewer than 10 claims are filed each year.<sup>35</sup> An estimated 180 returns were filed statewide in 2007, with an average of \$5,000 for those claiming only the A&E deduction.<sup>36</sup> The State Comptroller’s Office reports few inquiries following the launch of the program.<sup>37</sup> In Baltimore, three returns claimed the A&E income tax deduction through 2004, zero returns claimed the deduction in 2005, five in 2006, and fewer than 30 in 2007.<sup>38</sup> While these numbers suggest limited use of the deduction, available statistics are too general to draw further conclusions.<sup>m</sup>

Information about the use of the property tax and admission and amusement credits is difficult to obtain and potentially unreliable. In Baltimore, Department of Finance staff reported

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<sup>1</sup> “Artistic work” is defined as an original and creative work that falls into the categories of book or other writing; play or performance of a play; musical composition or performance of a musical composition; painting or other picture; sculpture; traditional or fine crafts; creation of a film or the acting within a film; creating of a dance or performance of a dance.

<sup>m</sup> See Appendix A for data limitations.

little interest in the incentives from the launch of the program.<sup>39,40</sup> When a business owner in the Highlandtown A&E District applied for the admissions and amusement tax exemption in spring 2009, the department could not locate the forms and procedures required to apply for the credit.<sup>41</sup> Staff responded by recreating documents that had not been requested in several years.<sup>42</sup> These incidents raise concerns about the accuracy of record keeping at the local level, but suggest that the use of tax incentives is modest at best.

Based on our research, incentive use may be limited by two factors: incentive design and the limited financial and technical capacity of districts to market incentives. Incentives in their current design may be too restrictive or require too much work for what may amount to a small credit. District managers, meanwhile, often lack the capacity to market incentives to potential users. We believe that in many districts, this may be the result of inconsistent funding and limited technical support from state agencies. While there is evidence that some issues extend across districts, the discussion below focuses on Baltimore's districts.

### *Incentive design*

Restrictions on eligible work and the low income of many artists may limit the use of the income tax deduction. Language drafted in the 1990s excludes graphic design or other forms of new media from the definition of artistic work.<sup>43</sup> Pieces or performances created or executed for industry are also excluded, preventing incentive use by artists who work for commission or whose work is licensed. Through licensing, artists earn royalty payments whenever their work is used commercially. With eligible work limited to traditional mediums created and sold in districts, relatively few artists in Baltimore's districts generate enough income from qualifying artistic work to make filing taxes practical.<sup>44,45</sup> As an incentive, any income tax deduction is less valuable than a tax credit because it reduces the amount of taxable income rather than reducing

the total amount owed. Further, because the A&E tax deduction applies only to state income taxes.<sup>46</sup>, the amount saved may be less than the amount owed in federal taxes.<sup>47</sup>

Property tax credits are both difficult to qualify for and less valuable than alternative credits. Available for commercial, manufacturing or industrial properties improved for arts-related enterprise, the property tax credit is for a percentage of the assessed increase in property taxes. Modest improvements like painting or lighting may transform an arts space but fail to raise real property values; as a result, there is no tax benefit.<sup>48</sup> Further, the credit is available only for the percentage of building area devoted to an arts-related purpose.<sup>49</sup> Interviews suggest that the value of the credit may not cover the expense of rehabilitation.<sup>50</sup> In addition, property tax credits available in certain A&E districts, such as Historic Preservation Tax Credits, may be more valuable than A&E credits. Finally, although many districts overlap Enterprise Zones, most managers fail to promote the substantial benefit of combining these with A&E property tax credits.<sup>51</sup> A detailed description and comparison of these tax credits is in Appendix C.

Finally, the admission and amusement tax exemption benefits only for-profit performance venues collecting the tax. Like the income tax deduction and property tax credit, the incentive offers minimal support to a sliver of individuals and organizations in a district. Nonprofit arts organizations that often drive arts activity in a district do not collect the tax and thus do not benefit. Likewise, restaurants and cafes with informal galleries and live entertainment draw visitors but rarely benefit from any incentive. Artists interested in rehabilitating residential properties find no incentive to do so.<sup>52</sup>

### *Implementation challenges*

In addition to problems with the design of incentives, annual reports suggest that implementation challenges may have limited the state's ability to connect districts with consistent funding streams and technical assistance. While legislation provides MEDAAF

funding for individual artists and organizations, generally, MEDAAF administrators favor larger-scale bricks and mortar investments to “anchor business in the district long-term.”<sup>53</sup> For example, MEDAAF provided a \$250,000 grant for the renovation of an arts magnet school in Hagerstown in 2008.<sup>54</sup> Further, interviews suggest some district managers are unfamiliar with the fund, and MEDAAF administrators confirm that interest is limited.<sup>55,56</sup> As of March 2010, only two projects had been funded under MEDAAF and a third project was planned.<sup>n,57</sup>

Currently, funding is not available for salaries or operating expenses through MEDAAF. As one member of the district selection committee explained, the state can only help to get the program started locally; the district management structure is a prerequisite that is expected to be self-sustaining.<sup>58</sup> Introduction of MSAC’s Technical Assistance Grants in 2008 indicates a new interest in helping districts enhance organizational development. Grants made twice annually, and may be used for consulting, professional development, and board or staff retreats, though not staff salaries or artistic programs and activities.<sup>59</sup>

State-level management shifts may have complicated program implementation. From 2002 to 2007, the program moved between MSAC’s Community Arts Development program and the Division of Tourism, Film and the Arts.<sup>60</sup> In summer 2009, MSAC consolidated the A&E Program Coordinator position; the current coordinator plans to leave the agency in April 2010.<sup>61</sup> Staff changes presumably affect the state agency’s ability to monitor district activities and maintain relationships with managers and local actors. In addition, without dedicated staff, there is limited time to review and validate data in annual reports.<sup>62</sup> Despite budget limitations, MSAC continues to improve administration and coordination. For example, an annual A&E District meeting held since 2008 provides an opportunity for district managers to tour a district, discuss best practices and challenges, and consider opportunities to collaborate.<sup>63</sup>

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<sup>n</sup> MEDAAF data has been available only since 2004. See Appendix A for more information.

## Case Studies

To better target incentives and funding for district activities and enterprises, we consider factors that may limit the use of incentives and those that appear to contribute to the success of an arts district. While a broad analysis of all Maryland A&E Districts is beyond the scope of this paper, we consider Baltimore's two arts districts, Station North and Highlandtown, as a starting point. Use of incentives in Highlandtown and Station North appear to be relatively low.<sup>o</sup> While arts enterprises are increasing in Station North, the growth of arts businesses stagnated in Highlandtown not long after district designation.<sup>64,65,66,67</sup> These case studies illustrate the challenges faced by districts and the role of resources and management capacity. Although the lessons learned from this analysis may not be applicable to all districts, we believe this information may be useful to inform policy changes that encourage arts-based revitalization.

### *Station North*

Station North in central Baltimore became one of Maryland's first A&E districts in January 2002. Though known for an emerging concentration of galleries, cafes and venues in the Charles North neighborhood, the area also includes a cluster of former industrial buildings in the Greenmount West neighborhood.<sup>68</sup> Penn Station is both the namesake of the district and a significant landmark. Appendix D provides a map of the district and its location within the city.

Greenmount West remains visibly more distressed than Charles North, with low-quality row houses, blue lights, and high vacancy.<sup>p</sup> However, more residential interaction can be seen in the low-income, majority African-American neighborhood.<sup>69</sup> While these qualities are unchanged since 2008, construction of the City Arts Building has begun. This affordable

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<sup>o</sup> See Appendix A for data limitations.

<sup>p</sup> In late 2008, we researched Station North for the Institute for Policy Studies' Baltimore City Project. The project measured change in and around five transforming neighborhoods in Baltimore, and included on the ground observations of all blocks in the district.

housing project will provide 69 rental apartments and eight new row houses for sale.<sup>9</sup> The majority of apartments will have preference for artists, and a tenants' council will run a gallery and studio space which may be available to outside artists. In Charles North, row houses are of higher quality, especially in a historic district along St. Paul and North Calvert Street where property rehabilitation is concentrated. Low-end and vacant commercial properties remain on North Avenue, which older residents associate with the 1968 riots that left the area blighted.<sup>70</sup> Streetscape improvements made in 2009 enhance the appearance of Charles Street and North Avenue, where pedestrian traffic and outdoor dining increases in the evening. Since 2008, the city acquired the vacant Chesapeake Restaurant on Charles Street; the restaurant and the Parkway Theater on North Avenue are targeted for future rehabilitation.<sup>71</sup>

### Historical Context

Located just east of the Maryland Institute College of Art (MICA), the Greenmount West neighborhood housed artists since the late 1970s, when the owner of the “Copy Cat” building converted a floor to artist studios.<sup>72</sup> The area became increasingly popular with artists in the 1990s.<sup>73,74</sup> The Charles Theater, which now serves as a district anchor, was rehabilitated during this time, and in 2001, a group of five artists purchased a building known as Area 405 to convert into studios.<sup>75</sup> Until rezoning in 2003, artists lived illegally in these industrial buildings, which continue to provide affordable loft space for some 500 artists and students.<sup>76,77</sup> Mainly renters under 30, these artists are well-networked internally but tend to be less involved with non-artist residents.<sup>78</sup> In recent years, MICA's rising status and investment<sup>r</sup> on North Avenue has bolstered the area's regeneration and recognition among artists.<sup>79</sup>

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<sup>9</sup> One-bedroom apartments are available for \$700, and renters' income may be up to 60 percent of the median income. Resident artists may stay regardless of future income. Rent will adjust with inflation.

<sup>r</sup> In 2000, MICA purchased the Banks Building on North Avenue for use as graduate student studios.

### Development of District

Following designation of the district in 2002, the Station North Advisory Board managed the district until creating the nonprofit Station North Arts and Entertainment, Inc. (SNI) in 2005.<sup>s</sup> The only district in the state managed by a full-time staff member, Station North receives funding from variety of nonprofit organizations and the Baltimore Office of Promotion and the Arts.<sup>80</sup>

### Partnerships

The arts district does not formally partner with community organizations, local artists or the City of Baltimore, although each plays a role in the area's development. For example, the city is leading development of the Chesapeake Restaurant and the City Arts Building. The city also coordinates Anti-Displacement Task Force<sup>t</sup> and has promised transfer of a space for a community center.<sup>u</sup> Along with MICA, the University of Baltimore and Johns Hopkins University support Central Baltimore Partnership's<sup>v</sup> efforts to attract investment to the area.<sup>81</sup>

### Current Status

While the advisory board created arts events in 2003, today SNI focuses on promoting regular area events.<sup>82</sup> The district is home to the Maryland Film Festival, and the city's major arts festival, Artscape, expanded to Station North in 2008.<sup>83</sup> SNI supports "Second Saturdays" by providing funding to venues for free events, with the goal of reaching a critical mass of street traffic to encourage evening commercial activity.<sup>84</sup> Arts-oriented businesses in the district grew from five in 2001 to at least 20 in 2010, including galleries, cafes, and a number of spaces that

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<sup>s</sup> The district's governing board took control of planning in summer 2009 after disbanding the advisory board. (Bielenberg 2009).

<sup>t</sup> In November 2007, the Baltimore Housing Authority and residents formed an Anti-Displacement Task Force.

<sup>u</sup> The property is promised to the New Greenmount West Community, though the transfer hasn't yet occurred.

<sup>v</sup> The Central Baltimore Partnership is "a coalition of neighborhood, private, public and institutional interests implementing a comprehensive community development strategy" in the area including Station North. See: <http://www.centralbaltimore.org>.

defy definition, combining performance space with retail, a bar, or other uses.<sup>85</sup> Interviews suggest that zoning restrictions may have limited business expansion, but this may be addressed through revisions to the city’s zoning code.<sup>w</sup> While the district is growing, interviews suggest that most businesses and artists are not aware of the incentives or choose not to use them.<sup>86</sup> SNI does not currently target artists with information about incentives, and the use of tax incentives is not tracked.<sup>87</sup> Efforts to create an artist registry have not been successful.<sup>88</sup>

While the influence of tax incentives is not fully understood, several factors may contribute to Station North’s relative success. Higher vacancy rates in Greenmount West created a critical mass of cheap space for a “ready-made” artist community, while MICA rapidly rose to become a top-tier arts school, doubling its student body in 10 years.<sup>89</sup> Station North’s location in the Charles Street corridor – with strong neighborhoods north and south – indicated that the area would be prime for reinvestment.<sup>90</sup> Finally, support from universities and City agencies, along with dedicated staff, lent the district much-needed resources.

### *Highlandtown*

The Highlandtown A&E District gained designation as the city’s second district in 2003. Located in southeast Baltimore’s blue-collar Highlandtown neighborhood, the 358-acre district includes a commercial main street area, thousands of row houses, and the turn-of-the-century Crown Cork & Seal industrial site.<sup>91</sup> Appendix F provides a map of the district and its location within Baltimore.

The district is transitional, with strong communities to the south and west and more distressed areas to the north.<sup>92,93</sup> Traditionally home to Greek, Italian and Polish immigrants, the area has seen the arrival of residents from Latin America, Africa and the Balkans. The area’s

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<sup>w</sup> The draft Transform Baltimore zoning code rewrite includes overlay districts that allow certain arts uses in residential areas.

diversity is both a draw and a source of occasional friction.<sup>94</sup> Home to department stores and formal wear shops through the mid-1970s, Highlandtown's Eastern Avenue declined with the opening of two malls in 1974.<sup>95</sup> Today, Latino businesses, discount stores and ethnic restaurants draw customers from adjacent neighborhoods, though commercial vacancy remains around 23 percent.<sup>96,97</sup> Pedestrian traffic along Eastern Avenue and the surrounding areas is steady, particularly during the daytime.<sup>x</sup> While the row houses along Patterson Park are generally of higher quality than the rest of the housing in the district, overall rates of abandonment appear to be relatively low. The area's proximity to I-95, downtown Baltimore, and the proposed Red Line light rail signal potential for economic redevelopment.<sup>98</sup>

### Historical Context

The arts began to take hold in the community in the late 1990s when the Eastern Avenue Partnership, a consortium of local leaders, decided to lure artists to the area as a means of revitalization.<sup>99</sup> In 1996, an artist renovated a Moose Lodge into a studio; by 1998, the Fell's Point Creative Alliance drew crowds to a Highlandtown performance space. The Partnership pushed plans to renovate the Patterson Theater for use by the arts nonprofit.<sup>100</sup> Programming at the multi-purpose community arts facility – opened in 2003 – has played a large role in attracting new artists to the area.<sup>101,102,103</sup> Today, Creative Alliance provides live/work spaces for eight artists through its competitive residency program.<sup>104</sup> In addition, artists reside in the former Crown Cork and Seal industrial complex located on the southeastern edge of the district.<sup>105</sup> An estimated 200 artists reside in the district, though without a registry, it is hard to assess growth. Stakeholders list the Patterson Theater and a public library built in 2007 as anchors of the Main

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<sup>x</sup> Observations of the Highlandtown A&E district were made in fall 2009.

Street revitalization and arts district,<sup>106</sup> and focus groups indicate that artists move to the area for the “allure” of the district and affordability.<sup>107</sup>

### Development of the District

In contrast to Station North, Highlandtown’s management is more fluid. Initial plans called for a part-time district coordinator to expand marketing and coordinate volunteers and stakeholders and a steering committee to fundraise and develop marketing materials.<sup>108</sup> Neither materialized, possibly as a result of staff changes at the organizations that applied<sup>y</sup> for the designation.<sup>109</sup> Today, a loosely-affiliated group of artists in the district meets monthly to plan arts projects and other events. The president of Southeast Community Development Corporation (SECDC) serves as the arts district contact for the state and often manages project funding.<sup>110</sup> As of 2008, the district received funding from the Baltimore Community Foundation, the Abell Foundation, and state-funded Community Legacy grants.<sup>111</sup>

### Partnerships

Creative Alliance remains a driver of arts activity in the district and indirectly markets the district through its own promotional materials and mailings. The organization offers performances, exhibitions, screenings, and classes for adults and children at the Patterson.<sup>112</sup> Creative Alliance performances range from quirky to high-art, while the nonprofit Banner Neighborhoods works with residents to create public artwork.<sup>113</sup> In 2008, Creative Alliance staff assembled Pour la Avenida, an umbrella organization intended to encourage information sharing and partnerships among Highlandtown nonprofits and organizations.<sup>114</sup> A second coordinating group began meeting in fall 2009 to improve coordination between community associations, merchants, old and new residents.<sup>115</sup>

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<sup>y</sup> Local organizations planning the district included Southeast CDC, Creative Alliance, Patterson Park Community Development Corporation, and Canton Community Association.

## Current Status

Events in the district include the Sculpture Project, the Artket at the Highlandtown Farmers' Market, and TrashyArt.<sup>116</sup> Creative Alliance hosts the Great Halloween Lantern Parade, the Marquee Ball, Art to Dine For, and CAMM Slamm, a contest where filmmakers write, shoot and edit a film in 48 hours.<sup>117</sup> The SalsaPolkaLooza street festival celebrates Highlandtown's old and new residents, while the Highlandtown Community Association draws visitors with its Highlandtown Wine Festival and the Highlandtown Basement Bar Tour.<sup>118</sup> While there is no shortage of events, arts businesses have had mixed success in the district since the designation. A neighborhood bar regularly shows local artwork and the converted Moose Lodge still operates as fine arts gallery.<sup>119</sup> Other galleries and venues that opened around the time of the designation have since closed, however.<sup>120</sup> An Open Studio Tour in October 2008 included 20 artist live/work spaces in or near the district, with several the north of an industrial area included in the district.<sup>121</sup>

Staff at Southeast CDC, who effectively manage the district, see the arts designation more as a marketing tool rather than an economic development strategy.<sup>122</sup> Though it targets potential home buyers, the organization lacks resources to target artists specifically.<sup>123</sup> As in Station North, the district manager is unable to track use of incentives, but interviews suggest few artists or businesses use them.<sup>124</sup> Second-story spaces along the commercial corridor are rarely renovated because the high costs of meeting building code requirements make conversion unprofitable.<sup>125</sup> A planned development at the Southeast Youth Academy may be the first to use combine Enterprise Zone and A&E District property tax credits: The first story will likely house a restaurant, but the second and third stories will feature low-cost studio space.<sup>126</sup>

With relatively low crime, higher-quality housing stock, and proximity to a well-funded arts anchor, Highlandtown could be viewed as the district more likely to be successful at the time

of designation.<sup>127</sup> However, several factors may have stalled district growth. First, the far-reaching boundaries of the district encompass a number of resident artists but leave the district without a central focus.<sup>128</sup> As Latino businesses grow, the commercial space available for arts enterprises becomes relatively more expensive than it once was.<sup>129</sup> Finally, without dedicated staff and resources, programming in the district largely depends on the Creative Alliance, SECDC or the efforts of local artists.

## **Recommendations**

The experiences of Station North and Highlandtown suggest that growth of an arts district should not be taken for granted. Incentives intended to spur artistic investment to achieve economic development prove to be rarely used. To that end, we offer recommendations to improve design of the incentives and increase capacity at the district level. While these changes may increase program costs, modified incentives can provide more meaningful support to the individuals and businesses whose activities may spur economic growth. Given state budget constraints at this time, however, we also offer recommendations for Baltimore's districts to attract and support artists and businesses through other means. Here we draw not only from interviews but case studies, including Cleveland and Washington, D.C., that emphasize preserving local culture and meeting artists' needs through affordable space and opportunities to show work. It is important that the city concentrate attention and resources to support and enhance existing districts before proposing additional districts that could compete for artists and businesses.

## **State of Maryland**

*Improve data collection of incentive use and the artist population in the state's A&E districts, and consider revising measures used to assess the impact of the arts.*

To better understand the use of incentives, MSAC should coordinate with the Division of Assessments and Taxation to collect and share data on the use of the income tax deduction. The agency should also require localities to report on the use of property tax credits and admission and amusement tax exemptions. The A&E District annual report form should be revised to allow clearer comparison across districts and tracking of new arts enterprises and artist residents. In addition, to better assess the overall impact of the arts on the local economy and neighborhoods, the state should incorporate broad measures such as those recommended by the Urban Institute's Culture, Creativity, and Communities Program.<sup>130</sup>

*Propose updated definitions of the income tax deduction and investigate new property tax credits to make them more useful to artists and art-related businesses.*

Updating the incentive definitions to include new forms of artistic media will increase their use and attract more artists to districts. Likewise, the incentive should be made available for work produced for industry. For example, the inclusion of graphic design, new media and stock photography in the definition of artistic work could concentrate these artists in districts, potentially spurring growth in the industry.

Legislators should investigate new or expanded property tax credits to address unique issues in each district. For example, the state could allow Baltimore to expand eligibility to residential properties with arts-related uses such as studios and galleries. In the city's draft zoning code rewrite, these uses would be permitted within proposed Rowhouse Mixed-Use Overlay Districts.<sup>z</sup> This would encourage artists to locate in a district and improve properties, particularly those that are not eligible for other property tax credits.<sup>aa</sup> In addition, in areas with high or rising property values, property tax credits could be offered to landlords that rent

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<sup>z</sup> Because studios and galleries are listed as permitted uses in the proposed overlay districts, presumably these would align with Baltimore's A&E districts.

<sup>aa</sup> For more information, see Appendix C.

affordable space to certain arts-related businesses. Before any new incentives are offered, data collection must be improved.

*Increase financial and technical support for arts district managers, and increase forums to discuss strategies that build on local strengths and avoid common pitfalls.*

Recognizing the importance of management in district success, the state should explore the possibility of reallocating some MEDAAF funding to MSAC's Technical Assistance Grants, expanding their use to district operating expenses and staff salaries. Hiring a dedicated A&E program coordinator at MSAC is also key to enhancing district-level capacity. The coordinator could connect district managers and staff to training in development, fundraising, and marketing, with the goal of making each district self-sustaining after an initial period. He or she might also assist districts in partnering with a local organization or incorporating as a nonprofit. Importantly, arts district managers and local government agencies should be trained about A&E incentives and how they may be combined with other locally available property tax credits. Finally, in addition to promoting state and local resources, MSAC should link districts to outside funding such as the New York Foundation for the Arts' NYFA Source<sup>bb</sup> and the Creative Communities Program.<sup>cc</sup>

### **Baltimore A&E Districts**

*Build on unique identities that allow each arts district to complement rather than compete, while connecting with local communities.*

Establishing a "sense of place" rooted in local culture can be an important factor for arts-based economic and community revitalization.<sup>131</sup> Highlandtown can look to its history as Baltimore's ethnic, quirky district with marketing that tie into the rich immigrant culture of southeast Baltimore. Station North, could promote its connection with avant-garde music, as jazz

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<sup>bb</sup> See: <http://www.nyfa.org>.

<sup>cc</sup> See: <http://www.lincnet.net/creative-communities>.

once drew the African American community to venues along North Avenue.<sup>132</sup> With higher-quality housing, vacant commercial space, and family-friendly activities at the library and the Patterson, Highlandtown is home to a greater number of established artists with families who may be more entrepreneurial.<sup>133</sup> Station North, meanwhile, has evolved as a center for non-mainstream music and performance. Given its proximity to MICA and other universities and its inexpensive housing stock, the district should continue targeting young artists.

*Develop an interactive web site to connect artists with services and supports while creating an incentive and opportunities to network and learn new skills. Use registration information to track the growth and needs of the artist community.*

Supports to help artists gain exposure, network, and learn basic business skills would benefit artists and improve district appeal.<sup>134</sup> Such networks facilitate access to the core needs of artists: validation, material resources, training and professional development, and dissemination of work.<sup>135</sup> This approach draws on Flashpoint's arts incubator concept in the form of a virtual network. A single website for Baltimore's districts could allow artist residents and small business owners to create online portfolios, learn about local grants, and connect to local organizations seeking partnerships. A site could include information about housing, galleries, and venues in the districts along with background on programs and incentives. Artists or businesses could submit events and shows to a public calendar and use Craigslist-style postings and blogs to find collaborators or discuss events. In this way, the site can serve different audiences: artists living and working in the district, artists considering relocating, and visitors who want to learn about the art work being made and events happening.<sup>dd</sup>

A web site can also help district managers collect information to track the local artist population and its impact – an important measure for district growth and success that is currently

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<sup>dd</sup> For example, the New Bohemia Cultural District in Cedar Rapids, Iowa showcases upcoming festivals and provides web space for local artists to create profiles and display art work. See: [www.theartfeed.com](http://www.theartfeed.com).

unavailable. While a site could be accessible to all, only resident artists would be invited to post events or create online portfolios. Resident artists should register before gaining access, allowing districts to track those living in the district and contact them about events or opportunities. In exchange, artists would find information about available grants and programs, in addition to seminars, community partnerships, and local services.

*Partner with anchor institutions, city agencies and local organizations to create opportunities for artists and arts enterprises.*

Local universities, businesses, and organizations can foster partnerships between business students and artists or businesses to help develop marketing plans or assist with small enterprise development. While MICA's professional development program provides business training, the program is limited to three courses and may be too costly for some artists.<sup>136</sup> Partnerships would allow business students to gain experience while artists benefit. Local organizations like Maryland Lawyers for the Arts and the Community Law Center might also be asked to provide workshops in grant writing, incorporating as a nonprofit, professional development, and entrepreneurship.<sup>137</sup>

If there is sufficient interest in small business development, districts could explore partnerships with the city to create an arts-based small business incubator<sup>ee</sup> as in Flashpoint DC.<sup>ff</sup> Currently, small arts-related enterprises populate Station North, but lack a cohesive business network.

Loans and specialized services offered in other arts districts could also attract interest. For example, local business loan programs could provide a revolving loan for arts-based businesses. The Pawtucket Business Development Corporation in Rhode Island's Pawtucket

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<sup>ee</sup> Arts incubators are facilities that support small and emerging arts organizations by offering low-cost or subsidized space and services. See: <http://www.americansforthearts.org/NAPD/modules/resourceManager/publicSearch.aspx?id=8438>.

<sup>ff</sup> See: [http://www.flashpointdc.org/business\\_center/residency.html](http://www.flashpointdc.org/business_center/residency.html).

A&E District provides a model.<sup>gg</sup> Arts districts could work with local realtors to help them understand what artists look for in studio or living space. These “credentialed” realtors could have their information included on the website in return, creating more business for the realtor and more specialized service for potential artist residents. In the same way, districts can work with local developers to help them understand exactly what artists are looking for in work space and how property tax incentives can be used.<sup>hh</sup>

## **Baltimore City**

*Maintain affordability, stability, and diversity by focusing on measures to prevent displacement of artists and legacy residents. Investigate programs to encourage rehabilitation of vacant properties through the arts.*

At present, the slow real estate market provides an opportunity to prevent displacement of both artists and legacy residents and manage gentrification. Baltimore is already taking steps to create stable, long-term housing for artists through the City Arts Building.<sup>138,139</sup> Even as the city supports artists, it should also target non-artist renters with homeownership opportunities, allowing them to invest in the neighborhood. Finally, the city should coordinate its land disposition strategy for arts districts with local stakeholders and consider a targeted vacant property rehabilitation program to direct city-owned properties for arts-related uses.<sup>ii</sup>

*Streamline procedures for improving and repurposing properties in the arts district. Promote information about zoning and other policies to potential investors.*

In some cases, Baltimore ordinances may limit arts activity or property improvements promoted by state incentives. For example, Baltimore’s minor privilege fees increase costs to business owners seeking significant façade improvements, while consignment fees charge businesses to display artwork for sale.<sup>140</sup> Interviews suggest district businesses and managers

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<sup>gg</sup> See: <http://www.pawtucketri.com/documents/planning/PwtBusBroch.pdf>.

<sup>hh</sup> See: Artist Link: <http://www.artistlink.org/?q=spacetoolbox/forartists/purchasingspace>.

<sup>ii</sup> The Artist Relocation Program in Paducah, Kentucky provides an interesting model for this approach. See: [http://www.paducaharts.com/about\\_the\\_program.php](http://www.paducaharts.com/about_the_program.php).

may be confused about permitting processes and the availability of assistance. To address these issues, we recommend: 1) Creating a special exemption or simplified process for granting minor privilege<sup>jj</sup> in arts districts; 2) Exempting businesses in districts from consignment fees; 3) Exempting festivals and events sponsored by districts from certain special event permit fees; 4) Allowing specific arts uses in residentially-zoned properties; and 5) Promoting information about how qualifying businesses in districts may apply for live entertainment as a conditional use.

## **Conclusion**

As this study demonstrates, Maryland's A&E program can be seen as an ambitious effort to encourage economic revitalization by incentivizing the arts, although the strategy is largely unsubstantiated by data. Given limitations in available data, it may be too soon to discuss the impact of the program. However, we find that in Station North and Highlandtown, arts-based revitalization can deliver benefits for artists, communities, and localities. By improving the state program through targeted incentives, consistent data collection, adequate funding and management support, the improvements noted in each district will only be enhanced.

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<sup>jj</sup> Baltimore City collects Minor Privilege fees for objects that project into the public right of way, such as signs or tables.

## **Appendix A Data Limitations**

Data on the use of the property tax credit, income tax credit, and the admissions and amusement tax exemption is limited, which restricts our ability to analyze the use and effectiveness of these incentives to encourage economic development in A&E Districts. Information on the use of income tax deduction was obtained from the Bureau of Revenue Estimates, Maryland Comptroller of the Treasury. Information on the use of the property tax credit and admission & amusement exemption was obtained from the Baltimore City Finance Director's Office and the Baltimore City Finance Department Bureau of the Budget and Management Research.

Tracking the use of the income tax deduction is complicated by problems with the tax form itself, privacy concerns, and the fact that the state is not currently tracking claims by district of origination. The state's tax form totals all deductions on a single line, making it impossible to determine the exact value for any one credit. Even if a single deduction is claimed, scanners may incorrectly read the code indicating the type of deduction,<sup>141</sup> and privacy restrictions prevent the Comptroller's Office from releasing specific information about the claims.<sup>142</sup> Finally, the state does not collect information on individual districts within a city or county and cannot distinguish between claims originating in the city's two districts, for example.

Information about the use of the A&E property tax and admission and amusement credits is collected at the local level and is not tracked by the Comptroller's Office. Additionally, conflicting information between local administrators and arts-related business owners calls into question the veracity of local-level data. Since 2001, Baltimore recorded zero claims of either the property tax credit or the admission and amusement tax exemption. However, at least one arts business in the city's Station North A&E district claims the 10-year Admission and Amusement

exemption, which the business obtained in 2002.<sup>143</sup> In response to an inquiry for data on the use of incentives, Supervisor for Assessments for Baltimore City Owen Charles explained that the city was in the midst of finalizing the procedures for tax credit and admissions and amusement exemption. “As such,” he said, “there is no history from which I can provide you with the responses to your questions.”<sup>144</sup>

Access to district-level data on the quantity and value of incentives claimed for each A&E tax would greatly enhance this study. Information on the type and extent of property improvements resulting in property tax credits would allow us to investigate the credit’s impact on spurring renovations. For the income tax deduction, data on the occupations of those individuals claiming the incentive would help us to identify which types of artists – in terms of medium and relative financial success – would be most likely to take advantage of incentives. Finally, a list of businesses taking advantage of the admissions and amusement tax exemption could indicate whether the credit is properly targeted.

Reports on the application and use of MEDAAF funds are not available before 2004, when the MEDAAF program was consolidated. Information prior to that date is based on an interview with the MEDAAF managing director.

Finally, recommendations are based primarily on interviews and case studies pertaining to Baltimore’s districts. While some of these may be applicable to the state’s other districts, a more thorough review of the state’s A&E districts is recommended and needed.

**Appendix B  
Table of Terms**

Term	Description
Income Tax Deduction	<p>(1) In Rhode Island, if an artist lives and works in an arts district, any income generated from the sale of work created and sold in the district is exempt from state personal income tax (RIGL 44-30-1.1).</p> <p>(2) If an artist rents or owns property in the county of an A&amp;E district in Maryland and works in an arts district, they may deduct qualifying income before state and local income is calculated (SB 794, Chapter 175, 2005).</p>
Sales Tax Exemption	If artists live and work in a Rhode Island A&E district, any work created and sold in the district is exempt from state sales tax (RIGL 44-30-1.1).
Property Tax Credit	A local tax credit percentage determined by each locality applies to the taxes attributable to the amount of the increased value (SB 794, Chapter 175, 2005).
Admissions and Amusement Tax	County and municipal governments in Maryland apply varying rates of tax on gross receipts for various activities. Additional details are available at <a href="http://business.marylandtaxes.com/taxinfo/admissions/methods.asp">http://business.marylandtaxes.com/taxinfo/admissions/methods.asp</a> .
Maryland Economic Development Assistance Authority and Fund (MEDAAF)	The fund is meant to expand employment opportunities in the state by providing financial incentives for certain industries and assistance to local governments for economic development. For A&E districts, MEDAAF funds may be used to finance costs incurred for working capital, construction or acquisition of a building or real property, and associated development and carrying costs.

## **Appendix C**

### **Explanation of Available Property Tax Credits**

In Baltimore City's Commission for Historical and Architectural Preservation (CHAP) districts, for example, investors also often opt for more valuable Historic Preservation Tax Credits.<sup>145</sup> In Baltimore's A&E districts, property owners in certain areas may be eligible for Historic Restoration and Rehabilitation tax credits and Enterprise Zone credits in addition to A&E property tax credits. The historic credit provides a 100 percent credit over 10 years on the increased value of properties rehabilitated in a district. Any improvements to properties within these districts must meet the requirements of the Commission for Historical and Architectural Preservation. Nearly all of Highlandtown's A&E district, except for the industrial area, falls under a CHAP district; in Station North, an area along St. Paul Street is included.

Outside of CHAP districts, interviews suggest that A&E property tax credit may be more attractive marketed in combination with Enterprise Zone<sup>kk</sup> or other credits.<sup>146</sup> Within Enterprise Zones (EZ), businesses are eligible for property tax credits for expansion or new construction. The value of this credit declines over 10 years from 80 percent to 30 percent of increased value. All of Station North is included in an EZ; in Highlandtown, the area west of S. Clinton Street is included. However, when combined with the A&E property tax credit, the EZ credit is modified to be worth 20 percent for five years before increasing. This complements the A&E credit, which is worth 80 percent for five years before declining. As a result, the tax credit schedule for the A&E property tax and the EZ property tax result in a 100 percent credit over 10 years on the increased value of the property.

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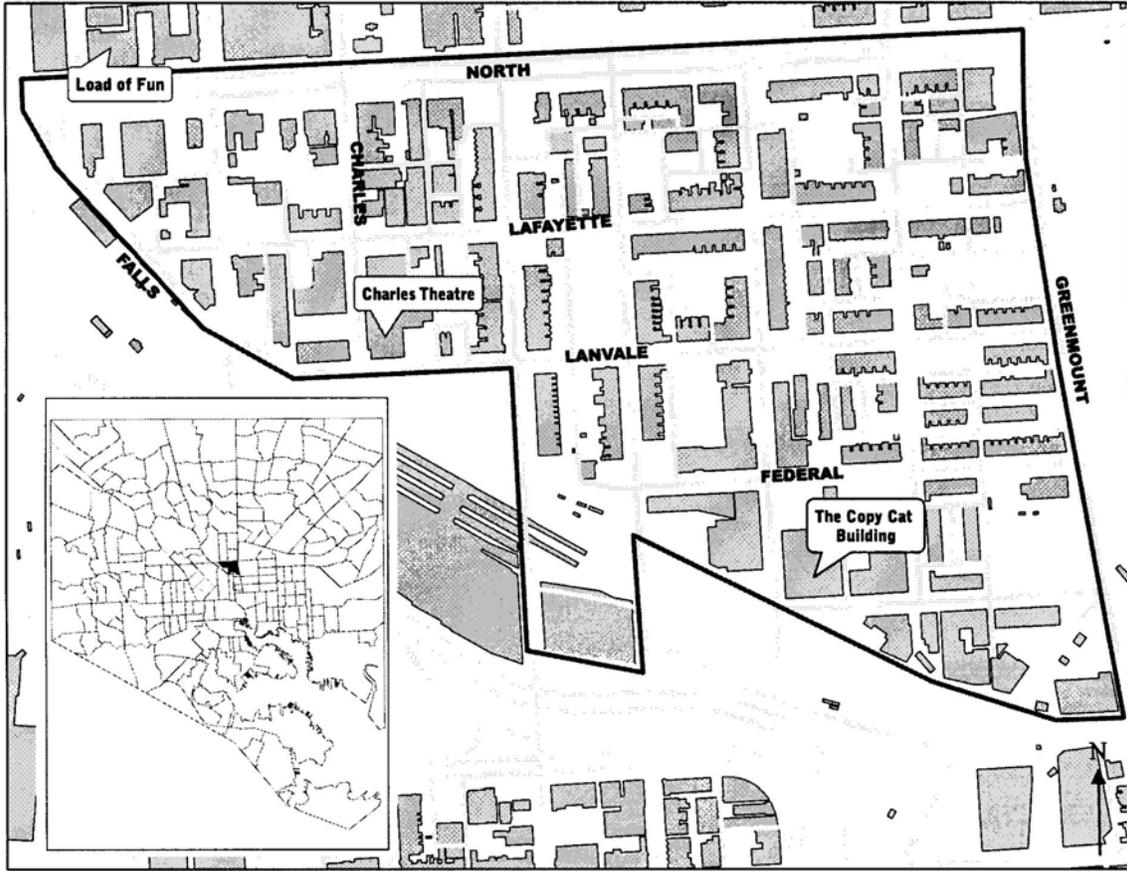
<sup>kk</sup> The Enterprise Zone Real Estate Property Tax Credit provides a tax credit over a ten year period for businesses to locate or expand facilities in designated zones.

**Appendix D  
Focus Group Attendees**

<b>Highlandtown</b>	
<b>Name</b>	<b>Title/Occupation</b>
Sandra Abbott	Resident, curator
Hillary Chester	Main Streets Manager, Southeast Community Development Corporation
Hillary Figinski	Resident, artist
Michael Owen	Artist, resident
Elaine Malcolm	Property owner
Mathew Saindon	Homeowner, artist
Dan Schiavone	Resident, artist, gallery owner
Joe Schultz	Resident, property developer
Melissa Wood	Resident, artist
<b>Station North</b>	
David Bielenberg	Station North District Manager
Myrtis Bedolla	Resident, gallery owner
Joe Edwardsen	Resident, restaurant owner
Melvin Mercer	Resident
Mike Riley	Arts business representative
Mike Shecter	Property developer

*Note: The Highlandtown focus group was held on Wednesday, August 19, 2009 and the Station North focus group was held on Thursday, August 20, 2009. Participants were invited by each district manager.*

**Appendix E**  
**Map of Station North**



Appendix F  
Map of Highlandtown



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