

February 27, 2023

FOR YOUR INFORMATION

To: Mayor and Members of City Council

From: Sheryl M.M. Long, City Manager 

Subject: Residential Community Reinvestment Area (CRA) Tax Abatement – Cincinnati Public Schools Impact Analysis

SUMMARY OF FINDINGS

The purpose of this memorandum is to provide additional information on questions raised by Councilmembers on the impact of the proposed update to the Residential CRA Program on the revenues of Cincinnati Public Schools (CPS). The impact of any approved revisions will ultimately be based on program utilization in the future; however, to demonstrate the projected impact, the Administration conducted an analysis of all 3,857 active existing abatements and compared the existing abated amounts to the amounts that would be abated under the proposed revised program.

As described below, this analysis projects that CPS would receive an additional \$1.33 million per year in revenue, due to a 23% reduction in abated values when the proposed revisions are applied to existing abatements.

This reduction in abatements is driven by the proposed reduced term lengths and caps and is concentrated in the wealthier Sustain neighborhoods, where there would be a 44% reduction in abated values.

This analysis indicates that the proposed program revisions will have a positive effect on CPS revenues, assuming continuation of program utilization and market trends. Additional information on the analysis methodology is below.

<u>Increased Annual CPS Revenue</u>	
Sustain	\$1,108,183
Expand	\$172,437
Lift	\$53,425
Total	\$1,335,294

<u>Reduction in Abated Value</u>				
	<u>Current Program</u>	<u>Proposed Program</u>	<u>Difference</u>	<u>% Change</u>
Sustain Tier	\$402,116,872	\$225,279,633	(\$176,837,239)	-44%
Expand Tier	\$330,110,342	\$302,593,902	(\$27,516,440)	-8%
Lift Tier	\$185,170,247	\$176,645,087	(\$8,525,160)	-5%
Total	\$917,397,461	\$704,518,622	(\$212,878,839)	-23%

METHODOLOGY

Based on current Hamilton County Auditor data, the Administration analyzed the cumulative abated values of all 3,857 active residential tax abatements granted since 2012. The proposed incentive revisions were applied to the existing abatements to calculate the amount of property value that would be eligible for an abatement under the proposed program. The difference in abated value was used to calculate revenue impacts. To provide the most accurate projection possible, these calculations were made as a one-year snapshot utilizing the most recent millage rates and property values, which change over time.

CPS relies on two types of property tax millage—fixed-sum millage and fixed-rate millage. Fixed-sum millage generates a specified amount of revenue, so the revenue does not increase with the tax base. If the tax base increases, the district-wide millage rate is adjusted down to raise the target amount of revenue. Since CPS would not realize increased revenue from its fixed-sum millage, that millage was not utilized in calculating revenue impacts. On the other hand, when the tax base increases CPS does realize additional revenues under fixed-rate millage, as fixed-rate millage is just a set millage rate applied to the available tax base. To calculate the revenue impact to CPS, the total effective residential millage rate was applied to the increase in taxable value (i.e. the reduction in abated value), then multiplied by the percentage of CPS's effective fixed-rate millage to the total effective residential millage (26.055%). The following assumptions were made in order to complete this analysis:

- This analysis is a comparison of active abatements on projects developed under previous tax abatement incentives, and as such, is assuming that all projects would still have been completed in full under the proposed incentives.
- Taxes were calculated at the TY2022 effective residential tax rate (76.876291 mills) with a 10.61280% reduction applied for the revenue calculation to account for the common owner occupancy and non-business credits. As these credits are not applicable to every property, the projection of foregone taxes is conservative. The less common homestead exemption is not accounted for in the revenue calculation.
- TY2022 CPS fixed-rate effective millage is 20.03, which is 26.055% of the total residential effective rate.
- In instances in Lift and Expand neighborhoods where the abated value is maxed out based on the current caps but would have benefited from the increased baseline caps under the proposed incentives, abated values remained at the existing value due to limitations of new improvement value data availability.
- Due to data availability constraints, all abatement terms are assumed to commence in the year in which the application was filed, and the incentive benefits awarded for the entirety of the qualified term length (i.e. no lost years for filing late).

As described above, the purpose of this analysis is to project the impact of the proposed program revisions on CPS revenues. The analysis was conducted utilizing data from existing incentives. Incentives for active abatements were adjusted only for the purposes of this analysis. Any proposed changes to the program passed by City Council will only impact new abatements as determined eligible under the new ordinance and, therefore,

ultimate impact to CPS revenues of the proposed revised program will depend upon program utilization after the effective date for any passed revisions.

CONCLUSION

The City's intent with the Residential CRA program is to encourage investment in our housing that would not otherwise occur without the offered abatement—improving the condition of our housing stock, income tax base, and property tax base. In a continued attempt to provide transparency and information on the program, the Administration is currently conducting a survey of applicants for the existing program, to better understand and demonstrate program impacts and function. Once concluded, the findings of the survey will be shared with Council.

While the data reviewed and analyzed for this memo provides only a projection of the impact to CPS for the new program, it also provides a basis, using real program data, for communicating the positive impact the proposed updates to the Residential CRA program will have within the Cincinnati community—benefitting homeowners, the City, CPS, other taxing jurisdictions, and our economy.

Based on the analysis above and given the consistency of market trends in our City, the Administration confidently concludes that the proposed changes to the existing program will result in additional tax revenue for CPS.

cc: Markiea L. Carter, Director, Department of Community and Economic Development