

Ord. No. 482-2022

2022 Residential Tax Abatement Renewal

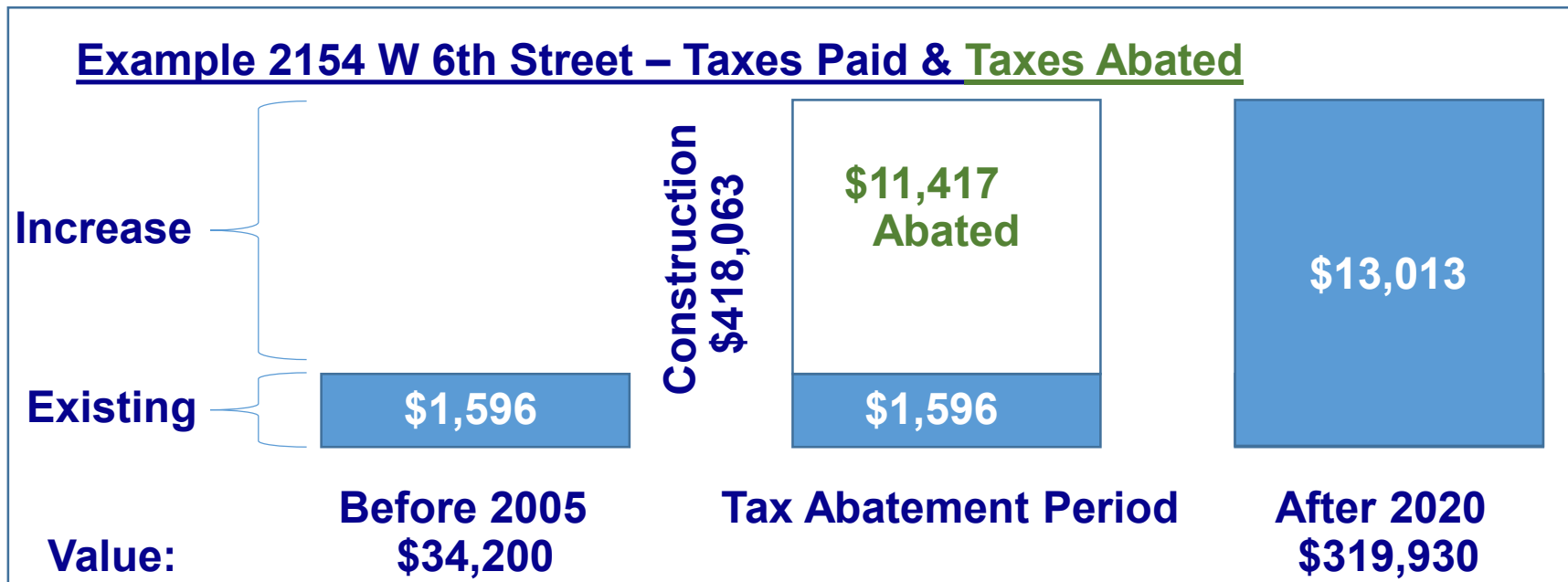


CITY OF CLEVELAND

Mayor Justin M. Bibb

What is a Tax Abatement?

- A property tax abatement is the temporary elimination or reduction of the **INCREASE** in taxable value resulting from new or renovated housing improvements
- Previous existing value is not eliminated or reduced



Previous City Tax Abatement Policy

- **2007 & 2012 Tax Abatement Renewals**
 - **Single- & Two-Family Developments- 100% 15 Year Abatement**
 - **Multi-Family Development - 100% 12 Year Abatement**

- **2017 Tax Abatement Renewal**
 - **All Developments- 100% 15 Year Abatement**
 - 2017-2021 Total Abatements **1,128** abatements
 - 2017-2021 New Housing Units **6,321** housing units
 - 2017-2021 Total Revenue Lost to Schools **\$123M** cumulative lost revenue
 - 2017-2021 Total Revenue Lost City **\$28M** cumulative lost revenue

Goals with 2022 Tax Abatement Renewal

Current proposal is built on qualitative and quantitative research with extensive community input.

- **Growth with equity**
- **"One Size Fits All" no longer makes sense - design a program that acknowledges neighborhood market realities**
- **Promote affordable housing**
- **Incentivize sustainable and green building practices**
- **Hold irresponsible property owners accountable**
- **Allow the market time to react to the change**
- **Reward rehabilitation of existing properties**
- **Fund needed City and CMSD services**



2022 Tax Abatement Renewal: Key Factors

- **Tax Abatement is just one tool**
- **There is no perfect time – but inequity only grew during COVID**
- **Bibb Administration is preparing other initiatives to**
 - **Protect renters**
 - **Hold irresponsible property owners accountable**
 - **Preserve and invest in existing housing stock**
 - **Incentivize housing in underinvested and middle neighborhoods**
 - **Support long time homeowners**



How we got here

Current proposal is built on qualitative and quantitative research with extensive community input over 3+ years

- **Key Partners- Equity Working Group**

- Council (Griffin, McCormack, Zone)
- Enterprise Communities Inc.
- Cleveland Neighborhood Progress
- CHN Housing Partners
- Greater Cleveland Partnership/CDA
- Detroit Shoreway CDO
- Burten Bell Carr CDC
- Tremont West CDC
- Famicos Foundation
- Ohio City Inc.
- Historic Gateway
- Downtown Cleveland Association

- **Tax Abatement Study- July 2020**

- 71 Individuals representing stakeholders
- 12 Community Listening Sessions
- 55 Resident Interviews
- 250 Community Members



- **Cleveland 2030: A Housing Equity Plan- Nov 2021**

- 1,600 Resident Participation (majority minority)
- 2 Public Listening Sessions with 200 Residents
- 180 Stakeholder Interviews



Research Conclusions



Cleveland Tax Abatement Findings and Recommendations

- Abatements are being concentrated in higher pressure, higher price markets – the City should adjust abatement in those markets
- Abatement is still needed – our housing market has not fully recovered and new construction still lags peer cities
- The City should cap abatement on single family, for sale housing
- Additional tools beyond abatement are needed to address housing affordability



Research Conclusions



VISION

The **Housing Equity Plan** is an action plan with a broad set of programs, policies, and investments that, over the next decade, will:

- Ensure that all Clevelanders—renters, homeowners, and those who are unhoused—have access to a **safe, healthy, and affordable home** in a **vibrant neighborhood**
- Tackle the **racial and geographic divides** that define the Cleveland housing market
- Promote growth that **lifts up individuals and communities that have been excluded** from housing opportunity, including the opportunity to participate in housing design and development
- Support Clevelanders who want to **remain in their homes**, while also **attracting new residents** to the city



Comparable Policies

Current proposal also seeks flexibility and targeting that other peer communities current implement.

- **St. Louis**: 5-25 years, ranging from 50% to 100% abatement, some decreasing combination over year, some offer alternative, only projects under \$1M.
- **Lakewood**: 5-year term
- **Cincinnati**: 10-15 year term, capped between \$200,000-\$800,000, extended for green building standards
- **Cleveland Heights**: 5-15 year terms, 25%-100% tax abatement, extended for green building standards
- **Columbus**: 15 year term, 100% abatement except in Market Ready area, with affordability and building requirements in Market Ready area and Ready for Revitalization area.
- **Pittsburgh**: 3-10 years, capped assessment at \$250,000 except in certain neighborhoods, with affordability requirements



2022 Residential Tax Abatement Renewal Ordinance

Current proposal also seeks flexibility and targeting that other peer communities current implement.

1. Same Eligibility for Renovation and New Construction
2. Geographically Differentiated + Targeted
 - Market Neighborhood
 - Middle Neighborhood
 - Opportunity Neighborhood
3. Single-Family Cap
4. Community Benefits Agreements for multifamily (4+ unit) Developments
 - Contracting Opportunities for MBE/WBE and CBE
 - Affordable Housing Set-Asides
 - Voluntary Payment In-Lieu of Affordable Housing Set-Asides
5. Affordable Housing eligible for maximum abatement anywhere in the City
6. Continues green building standard requirement
7. Terminate tax abatement for neglect or delinquency
8. Grandfathering period for current projects

C O P C 128 171

Ordinance No. ____ -
2022

AN EMERGENCY ORDINANCE
Establishing three areas encompassing the entire City of Cleveland as Community Reinvestment Areas under Section 3735.65 et seq. of the Ohio Revised Code, and making certain findings and determinations in connection with the Community Reinvestment Areas.

WHEREAS, Section 3735.65 et seq. of the Ohio Revised Code authorizes municipalities to designate Community Reinvestment Areas where certain criteria have been met; and

WHEREAS, the City of Cleveland is an area in which housing facilities or structures of historical significance are located, and new construction and repair of existing facilities or structures are discouraged; and

WHEREAS, The Ohio Constitution, Article VIII, Section 16, has recognized Housing to be a proper public purpose and programs to promote housing to be in the public interest; and

WHEREAS, this ordinance constitutes an emergency measure providing for the immediate preservation of public property, health, and safety, in that creating these Community Reinvestment Areas will encourage housing development and providing for the usual daily operation of a municipal department; now, therefore,

BE IT ORDAINED BY THE COUNCIL OF THE CITY OF CLEVELAND:

Section 1. That based upon information and data presented to this Council and contained in File No. _____, 22-A, it is found and determined that the City of Cleveland is an area in which housing facilities or structures of historical significance are located and new construction and repair of existing facilities or structures are discouraged.

Section 2. That all of the area within the municipal boundaries of the City of Cleveland, as depicted on the zoned boundary map contained in the above-mentioned file, is divided into three designated Community Reinvestment Areas under Section 3735.65 et seq. of the Revised Code.

Section 3. That Community Reinvestment Area #1, the Strong Market Area ("CRA #1"), Community Reinvestment Area #2, the Middle Market Area ("CRA #2"), and Community Reinvestment Area #3, the Underinvested Area ("CRA #3") are areas where the construction of new residential and commercial structures and the remodeling of existing residential and commercial structures are declared to be a public purpose for which exemptions from real property taxation shall be granted in the following manner in accordance with Section 3733.67 of the Revised Code:

(a) The owner of any restricted affordable housing, where all units are affordable at 80% Area Median Income ("AMI") or below for a minimum of 15 years, in CRA #1, CRA #2, and CRA #3 may file an application with the Housing Officer for an exemption from real property taxation for a period of 15 years for 100% of the increased assessed taxes not to exceed \$350,000.00 for new construction projects consisting of one, two, and three family residential properties.

(b) The owner of any restricted affordable housing, where all units are affordable at 80% AMI or below for a minimum of 15 years, in CRA #1, CRA #2, and CRA #3 may file an application with the Housing Officer for an exemption from real property taxation for a period of 15 years for 100% of the increased assessed taxes not to exceed \$350,000.00 for the remodeling of existing one, two, and three family residential structures where remodeling costs are greater than \$5,000 per structure.



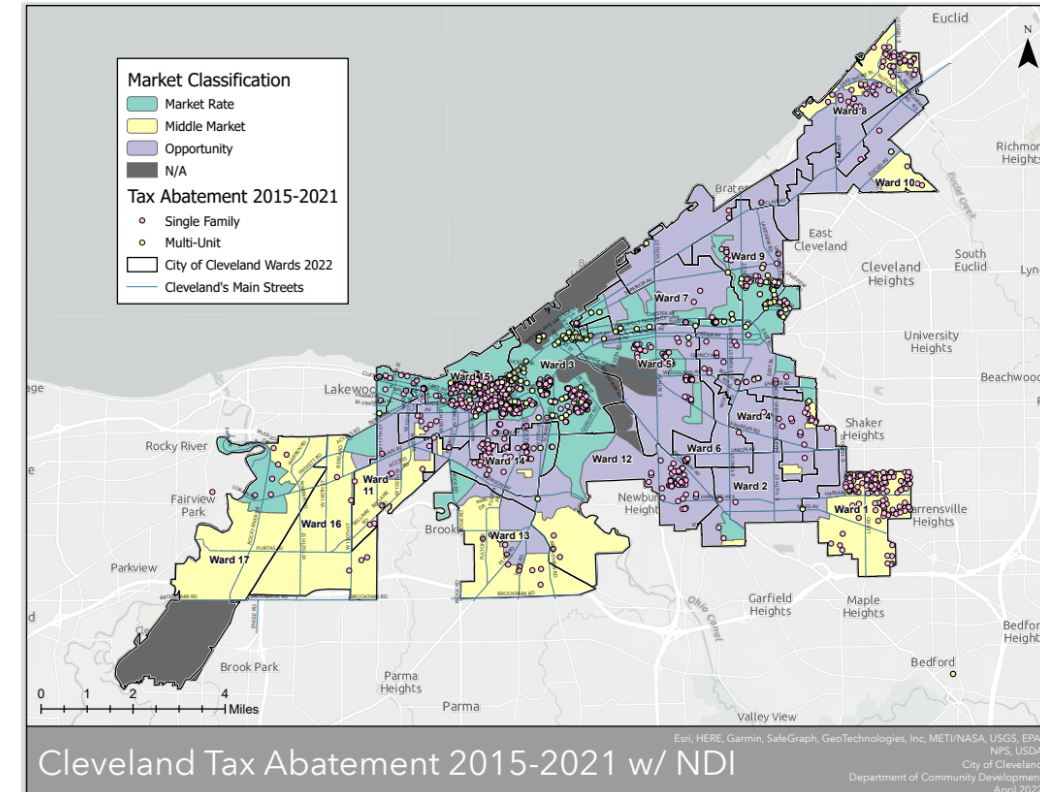
Geographically Differentiated Tax Abatement Framework

- **Not all neighborhoods are the same**
- **Not all neighborhoods have seen investment**
- **Some neighborhoods need extra incentive**
- **Methodology developed by City in partnership with CWRU based on 17 measures of housing patterns, market activity, and demographic indicators divides each census tracts into one of three categories:**
 - **Market Rate Neighborhoods** have seen substantial investment; higher sales and rental prices; lower foreclosure rates; and higher incomes
 - **Middle Neighborhoods** have higher density of single family, middle class / workforce housing; older housing stock, some foreclosure and demolition activity
 - **Opportunity Neighborhoods** have seen limited investment; substantial demolition and foreclosure; and have lower household income



Geographically Differentiated Tax Abatement Framework

1. Mean Arms-Length Sales Price per sqft (inflation adjusted)
2. Percent of Residential Properties that sold at least once from 2017-2019
3. Variation in sales price per sqft
4. Percent foreclosure
5. Percent postal vacancy for at least one quarter
6. Residential Density
7. Percent owner-occupant tax credit
8. Median year built of residential properties
9. Median square feet per housing unit
10. Average number of baths per housing unit
11. Average number of bedrooms per housing unit
12. Percent single-family
13. Percent multi-family homes
14. Percent "Good" condition or better by the county auditor
15. Count of residential demolitions from 2017-2019
16. Commercial density: commercial properties per square mile
17. Count of housing choice voucher per square mile



Geographically Differentiated Tax Abatements

- **Geographical Differentiated**

- **Market Rate Neighborhood**

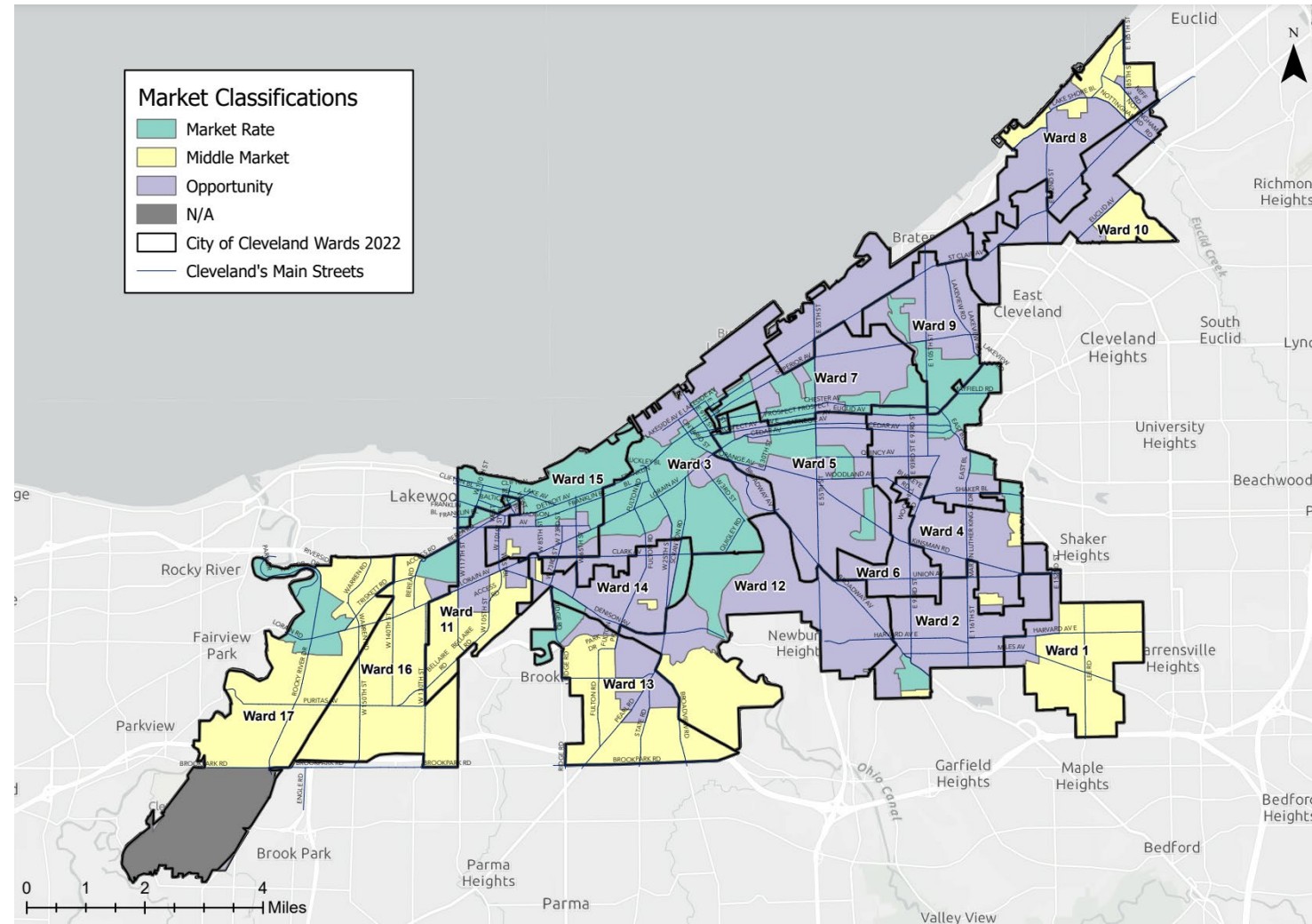
- 15-year
- 85% tax abatement

- **Middle Neighborhood**







- 15-year
- 90% tax abatement

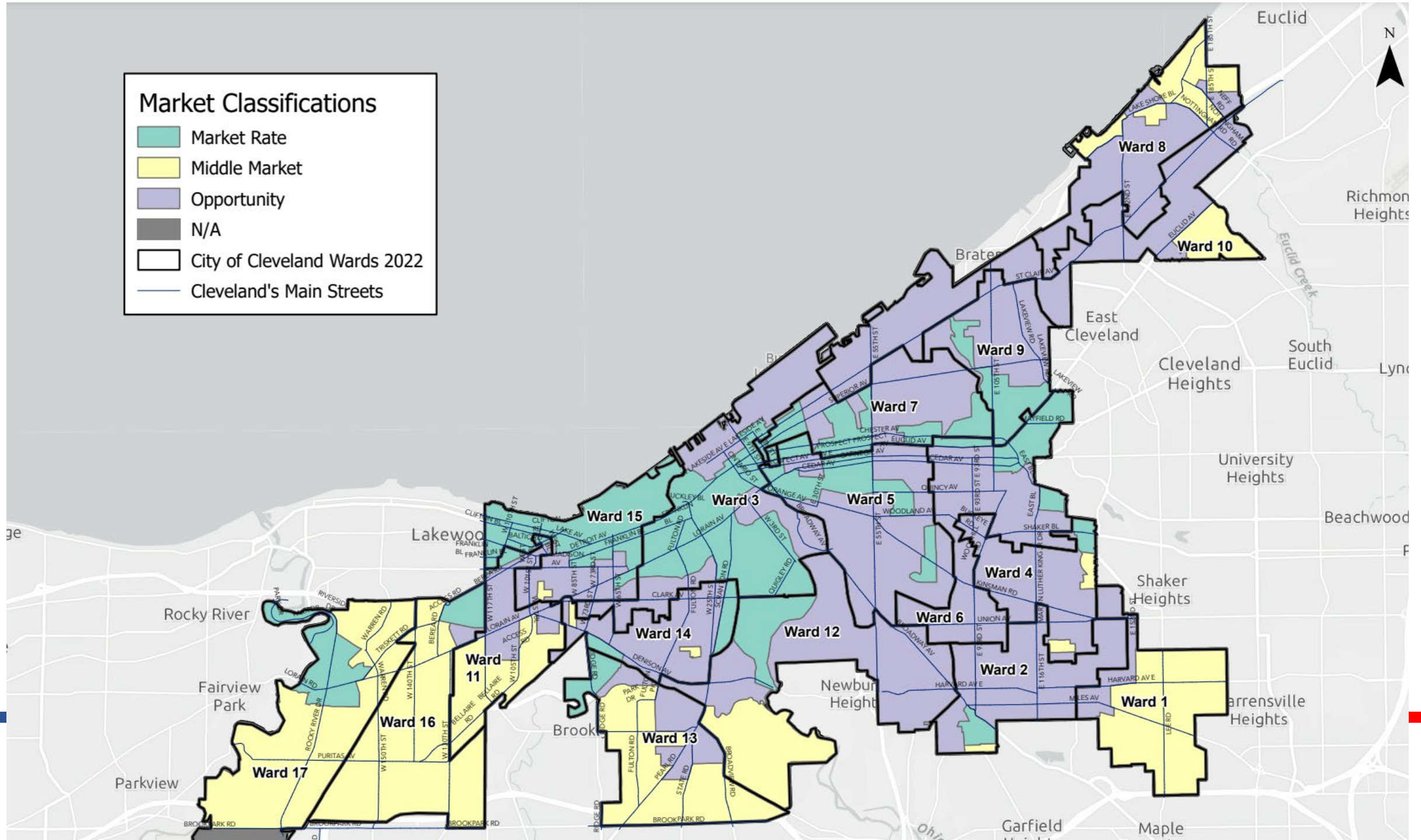
- **Opportunity Neighborhood**

- 15-year
- 100% tax abatement



Market Classifications

-  Market Rate
-  Middle Market
-  Opportunity
-  N/A
-  City of Cleveland Wards 2022
-  Cleveland's Main Streets



Cap on For Sale Housing

- **Market Rate- First \$350,000 of new value will be abated**
- **Middle & Opportunity- First \$450,000 of new value will be abated**
- **Sale value above these thresholds will be subject to full taxation**
- **Neighborhood differentiation applies to abatement**
- **Applies to townhomes, condos, duplexes**
- **Example:**
 - **Newly built home in Market Rate Neighborhood sells for \$1 million**
 - **First \$350,000 of value is eligible for 15 year, 85% abatement**
 - **Remaining \$650,000 of value is not eligible for abatement**



For-Sale Housing Cap Lookback

	Market Rate	Middle	Opportunity
2015-2021 Exceed \$350k	198	1	0
2015-2021 Below \$350k	627	214	290



Community Benefit Agreements for Multi-Family Developments

For all Multi-Family Development, 4+ units

- **Contracting Opportunities – best efforts to achieve**
 - **Minority Business Enterprises- 15%**, *unless OEO determines alternative %*
 - **Women Business Enterprises- 7%**, *unless OEO determine alternative %*
 - **Cleveland Business Enterprises- 8%**, *unless ORO determines alternative %*
 - **Follows City Ord Chapter 187, 188 and 189**



Community Benefit Agreements for Multi-Family Developments

For all Multi-Family Development, 4+ units

- **Affordable Unit Set-Aside**

- A specific percentage of all units in a project must be set aside as affordable
- Percentage varies based on project location
- Affordability threshold at 80% AMI
- 1-for-1 reduction in affordable unit requirements for every 30% AMI affordable unit
- Affordable units should reflect overall project unit mix

- **OR Voluntary Payment In-Lieu of Set-Aside**

- \$20,000 per set-aside unit
- Paid to City's Housing Trust Fund to be used for housing projects which advance City's 10 year housing plan
- Criteria to be developed by Administration in consultation with City Council

	Market Rate	Middle	Opportunity
Set-Aside %	25%	15%	5%
Voluntary Payment \$20,000 per unit			

MSA	0-1 Bedrooms	2 Bedrooms	3+ Bedrooms
120% AMI	\$1,209	\$1,456	\$1,675
100% AMI	\$1,007	\$1,214	\$1,396
80% AMI	\$806	\$971	\$1,116
60% AMI	\$604	\$728	\$837
50% AMI	\$504	\$607	\$698
30% AMI	\$302	\$364	\$419



Maximum Tax Abatement for all Affordable Projects

- **All Deed Restricted Affordable Housing Development would be eligible for 100% 15-Year Tax Abatement**
 - **Low-Income Housing Tax Credit Projects**
 - **HOME Assisted Projects**
 - **Community Land Trust**
 - **Any other project that places an affordability restriction for the period of the tax abatement**



Continue Green Building Standard

- All project receiving tax abatement must meet the Green Building Standard

Cleveland Green Building Standard Handbook

Cleveland Department of Community Development

Published February 7, 2009; Revised October 5, 2009; Revised January 28, 2010

1. Introduction

On November 14, 2007, Mayor Frank G. Jackson announced the creation of the Cleveland Green Building Standard. In his remarks he said, "The City of Cleveland is working to make Cleveland a City of Choice. In doing so, Cleveland seeks to provide affordable housing that reduces the costs to home buyers & renters for heating & cooling, reduces the environmental impact of our communities, and provides universal access to the elderly and disabled. Cleveland will develop green building policies that help create houses that:

- Are affordable to operate and maintain
- Are energy efficient
- Healthy
- Accessible and transit oriented
- Reduce impact on the environment by managing stormwater run-off and provide green space for healthy communities"

The Mayor also announced a timetable for implementation of the Green Building Standard. Beginning in 2008, developers could qualify for additional resources for residential projects meeting the standard; in 2009, all residential projects receiving direct assistance from the City of Cleveland would be required to meet the Cleveland Green Standard; and in 2010 all residential projects seeking Cleveland's CRA tax abatement would be required to meet the standard.

This handbook is a reference guide for developers, builders and homeowners who wish to implement the Cleveland Green Building Standard. The Green Building Standard. Is designed to help homeowners contain energy costs, reduce their contribution to climate change and to reduce the demand for scarce natural resources. The Standard also creates direct benefits for developers, including cost savings from efficient operation, a marketing advantage and public recognition of the high performance nature of their homes.



Tax Abatement Termination for Neglected or Delinquent Properties

Tax abatement would be revoked upon:

- Failure to correct a building code or zoning code violation within the time allowed
- Failure to pay property taxes owed

Penalties for Non-Performance

By statutory authority, the Housing Officer (as defined by the City Ordinance as the Commissioner of Neighborhood Development), may revoke a property's Tax Abatement after its first year of abatement, if the property has not been properly maintained, is subject to Building Code violations, is tax delinquent or has materially failed to fulfill the obligations contained in the written agreement.

Ohio Revised Code Section 3735.68 authorizes revocation of tax abatement.

The Housing Officer may provide the property owner in writing an opportunity to come into compliance within a reasonable timeframe, but not longer than 180 days.



Grandfathering Current Abatement Rules for Existing Projects

- **One year grandfathering period extends to June 2023**
- **Goal is to protect developers who relied on the current abatement rules to make investments and plan projects**
- **Any projects will be eligible for current 15 year, 100% abatement if they:**
 - **Submit a complete part 1 abatement application to the City by the deadline**
 - **Submit a complete application for schematic design review approval to Planning Commission by the deadline**



Anticipated City Process Improvements

- **Online application**
- **Clear communication**
- **FAQ documents online**
- **Webinar/Video explaining the process**
- **Tracking application status**
- **Cloud based project files**
- **Build staffing redundancy**



Revenue Potential Estimates- 2015-2021 Simulation

	Current Policy		Proposed Policy	
	School Revenue	City Revenue	School Revenue	City Revenue
Market Rate	\$0	\$0	\$43,838,015	\$10,199,068
<i>Multi</i>	\$0	\$0	\$36,361,987	\$8,459,636
<i>Single</i>	\$0	\$0	\$7,476,028	\$1,739,432
Middle	\$0	\$0	\$352,081	\$81,905
<i>Multi</i>	\$0	\$0	\$5,972	\$1,389
<i>Single</i>	\$0	\$0	\$346,108	\$80,515
Opportunity	\$0	\$0	\$0	\$0
<i>Multi</i>	\$0	\$0	\$0	\$0
<i>Single</i>	\$0	\$0	\$0	\$0
Cumulative New Revenue	\$0	\$0	\$44,190,097	\$10,280,973



Revenue Potential Estimates- Simulation by Year- **School**

	Current Policy		Proposed Policy	
	New Revenue	Cumulative Revenue	New Revenue	Cumulative Revenue
2015	\$0	\$0	\$1,940,908	\$1,940,908
2016	\$0	\$0	\$2,527,942	\$4,468,850
2017	\$0	\$0	\$948,331	\$5,417,181
2018	\$0	\$0	\$1,623,342	\$7,040,523
2019	\$0	\$0	\$256,746	\$7,297,269
2020	\$0	\$0	\$1,221,144	\$8,518,413
2021	\$0	\$0	\$988,540	\$9,506,953
New Revenue	\$0	\$0	\$9,506,953	\$44,190,097

Revenue Potential Estimates- Simulation by Year- **City**

	Current Policy		Proposed Policy	
	New Revenue	Cumulative Revenue	New Revenue	Cumulative Revenue
2015	\$0	\$0	\$451,546	\$451,546
2016	\$0	\$0	\$588,134	\$1,039,680
2017	\$0	\$0	\$220,641	\$1,260,321
2018	\$0	\$0	\$366,677	\$1,626,998
2019	\$0	\$0	\$59,740	\$1,686,738
2020	\$0	\$0	\$281,112	\$1,970,850
2021	\$0	\$0	\$229,990	\$2,200,840
New Revenue	\$0	\$0	\$2,200,840	\$10,280,973

Questions?



CITY OF CLEVELAND

Mayor Justin M. Bibb

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