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# Cleveland Tax Abatement Study Findings and Recommendations

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# Cleveland Tax Abatement Study

## Our Objectives

1. Understand impact of abatements on community and residents
2. Engage with stakeholders to understand concerns with the current program
3. Identify programmatic and policy adjustments

## The Study Team



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pfm



## Research Conducted August 2019 to January 2020



Analyze Cleveland abatements issued 2004 to 2018



Economic impact analysis of city's abatement program



Review of abatement programs in peer and surrounding communities



Interviews and focus groups with residents, developers, community leaders



Analysis of current and historic housing market trends



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# Background: Tax Abatement Programs

**Tax Abatement** programs are designed to encourage new housing development by waiving a portion of a resident's new property taxes for a set period.

Abatement programs are used in many cities around the country, and their terms vary from city to city.

## Cleveland's Residential Tax Abatement:



**Abatement Term: 15 Years.** Owners of abatement properties will not see the assessed value of their home increase for 15 years.



**Abated Value: 100%.** The total value of improvements made as a result of the development are abated for the full term of the abatement.

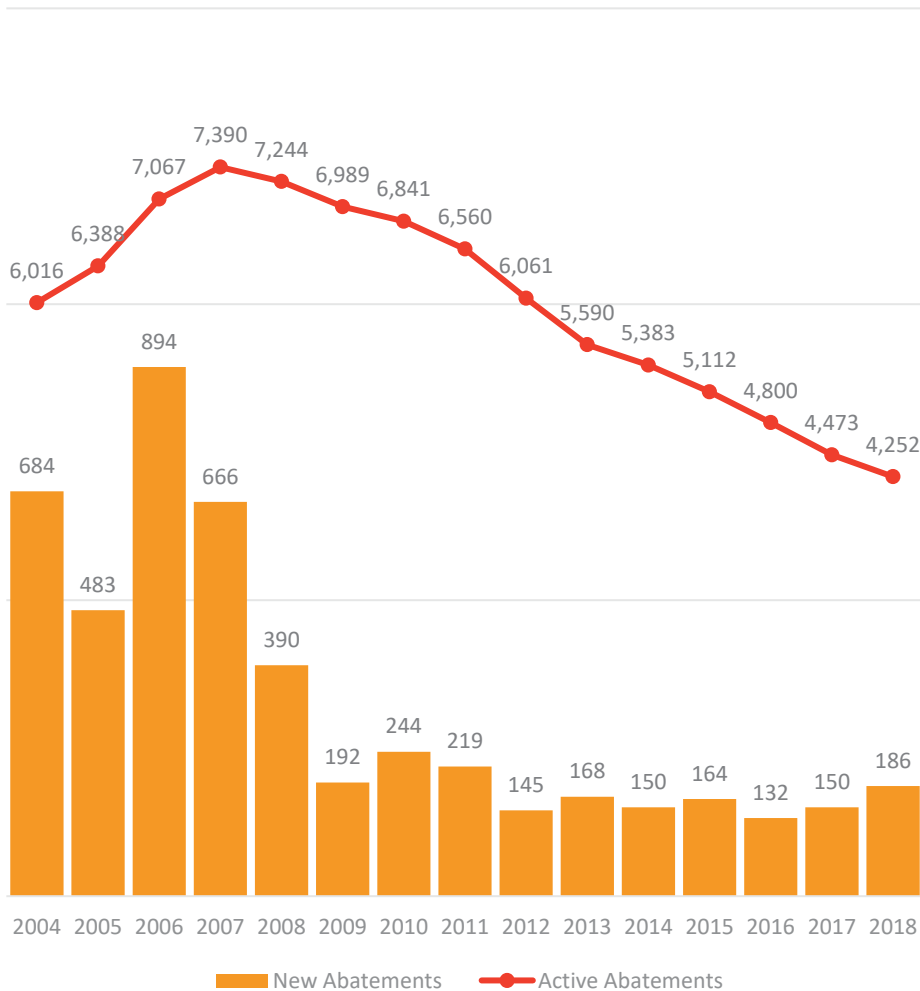


**Requirements: Minimum Investment, Green Building Standards.** To be eligible developers must make a minimum dollar value of new investment in the parcel and implement green building standards.

# Utilization of Tax Abatement Program Has Declined

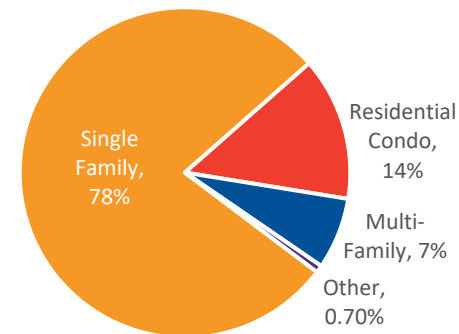
## Abatement Usage Declining Since Peak in 2006

Number of New Abatements Issued Each Year and Total Active Abatements, 2004 to 2018



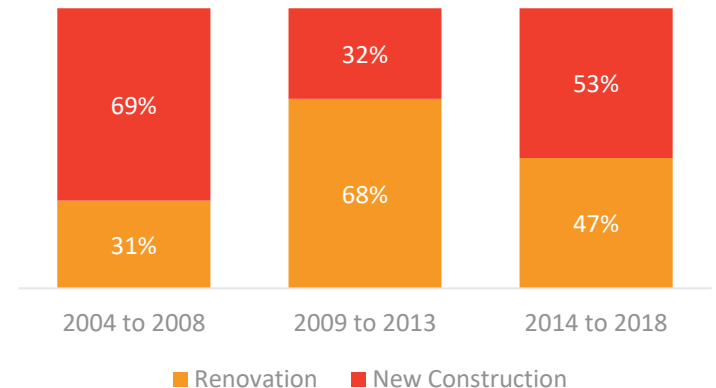
## Most Abatement Projects are SF Development

Share of Abatements by Parcel Land Use, All Active Abatements, 2004 to 2018



## Renovation Growing, but New Construction Remains Most Common Project Type

Share of Abatements by Project Type, by Date of Abatement Issuance, 2004 to 2018



# Cleveland's Housing Market is Still Recovering

## Cleveland Market Types

Current Home Prices

Lowest Prices  
(<\$35k)

Highest Prices  
(>\$75k)

Displacement  
Risk Ratio

Highest

0%

0%

2%

Stable

3%

7%

4%

Declining

54%

20%

10%



Racially and Ethnically  
Concentrated Areas of  
Poverty (RECAP)

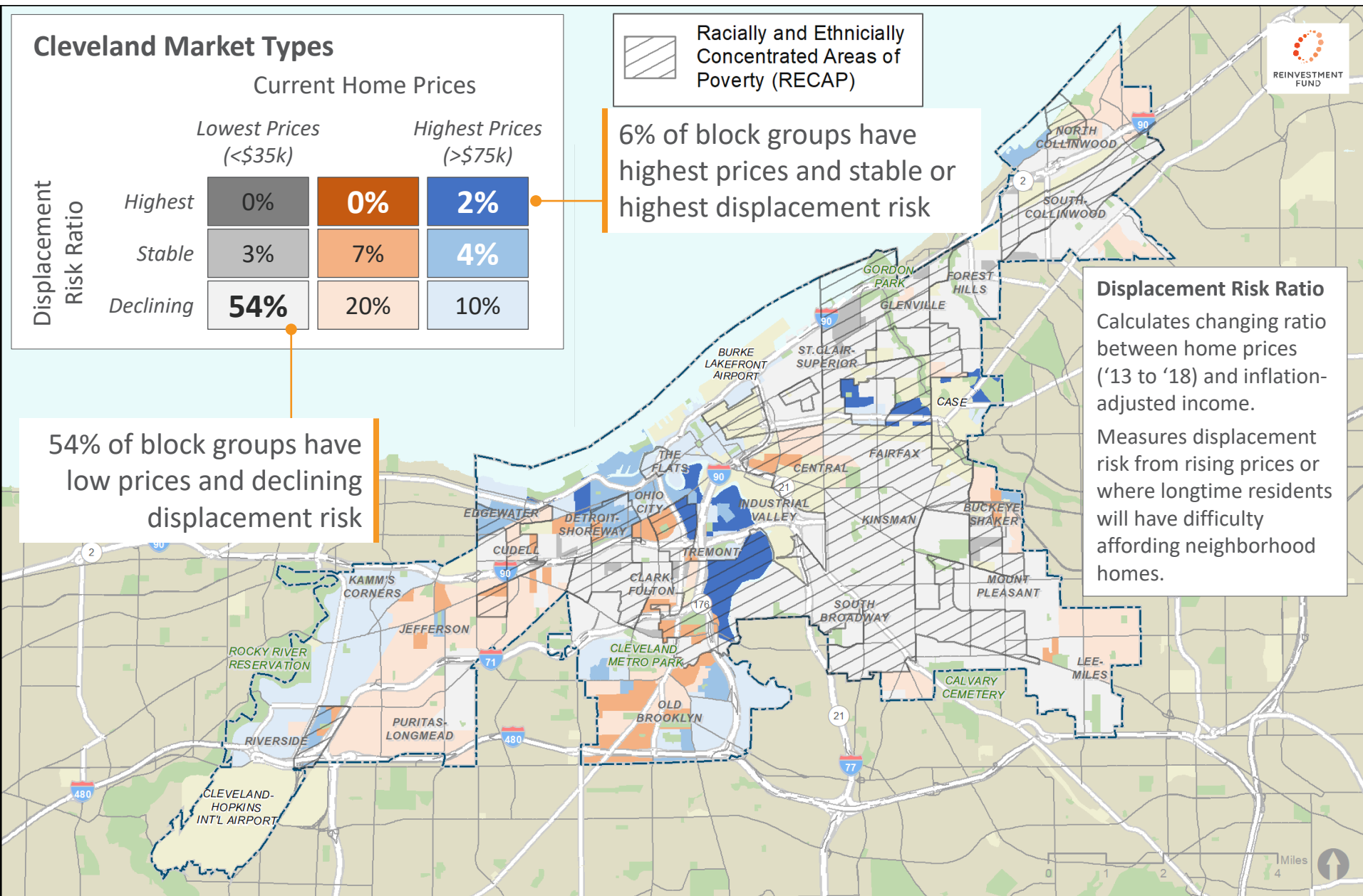
6% of block groups have  
highest prices and stable or  
highest displacement risk

54% of block groups have  
low prices and declining  
displacement risk

### Displacement Risk Ratio

Calculates changing ratio  
between home prices  
(‘13 to ‘18) and inflation-  
adjusted income.

Measures displacement  
risk from rising prices or  
where longtime residents  
will have difficulty  
affording neighborhood  
homes.



# Abatements Are Becoming More Concentrated

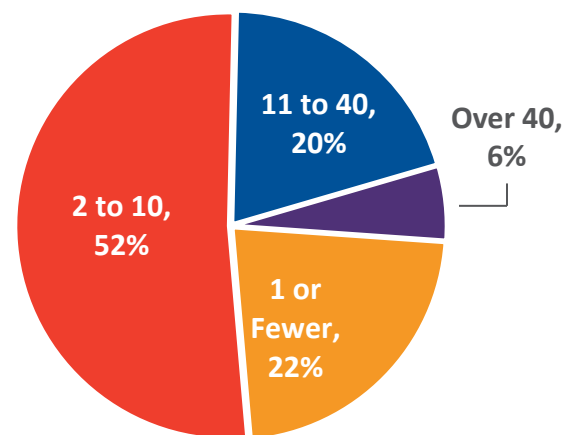
## Abatements Represent a Small Share of all City Parcels

2.5%

Share of Parcels with Active Abatements in 2018

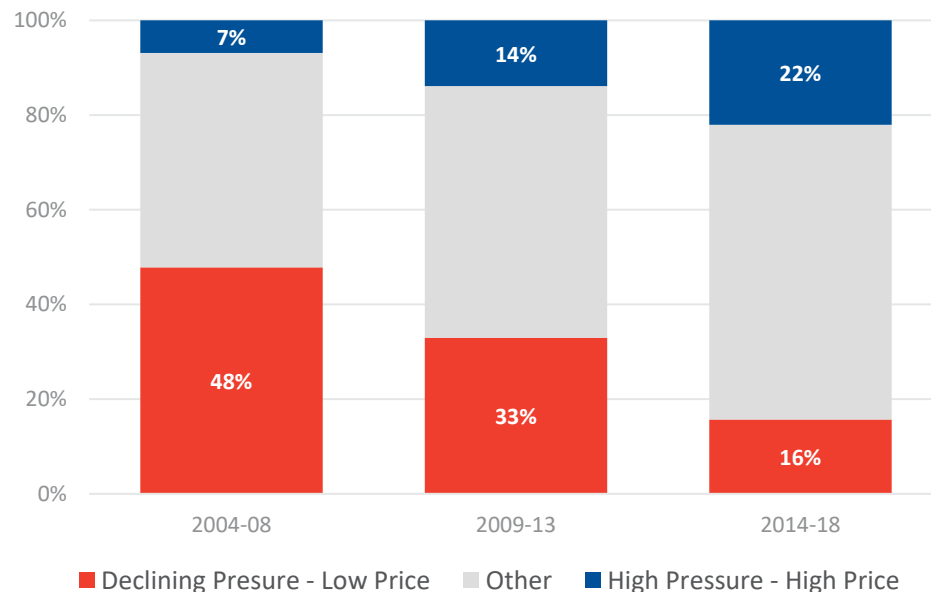
## Most Block Groups (74%) Had 10 or Fewer Parcels Abated Between 2004 and 2008

Count of Abatements Issued in Each Block Group, 2004 to 2018



## ...But Abatements are Becoming More Concentrated in Higher Pressure, Higher Price Markets

Share of Abatements Issued by Market Type



### Market Type Definitions

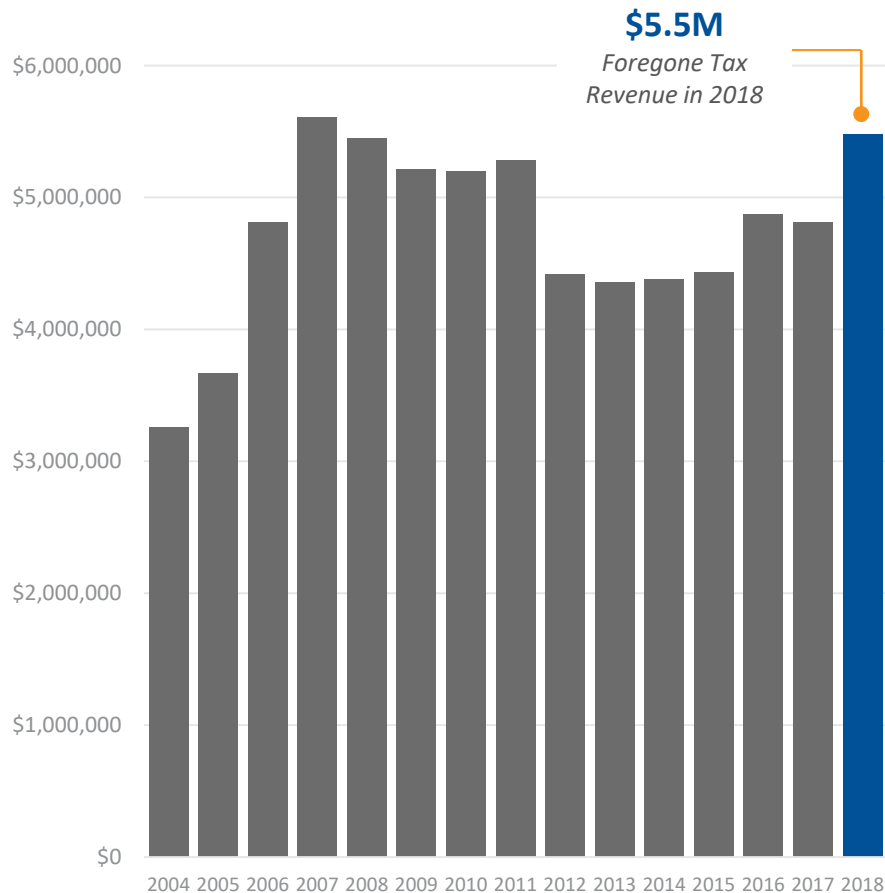
**Declining Pressure – Low Price:** Weak housing markets where median home prices were below \$35k and declining housing pressure compared to the rest of Cleveland.

**High Pressure – High Price:** Strong markets with resident displacement pressure where median home prices were above \$75k and displacement pressure was rising compared to the rest of Cleveland.

# Abatements Generate Economic Activity... at the Expense of Tax Revenue

## Estimated Economic Impact of Cleveland Tax Abatements

*Forgone Abated Tax Revenue, 2004 to 2018*



*Ways that Abatement Generate Economic Activity*

- Spending by homeowners on newly built or renovated homes
- Builder/Developer spending on inputs such as materials (e.g., lumber, drywall, paint), and services (e.g., plan design, engineering)
- Wages paid to workers in construction and real-estate industries

### *Caveats:*

- Some amount of activity would have occurred without the abatement
- Some economic spending captured here occurs outside of Cleveland
- Only a portion of economic value is returned to the city through taxes

### *Illustration of Economic Impact Analysis, 2018*

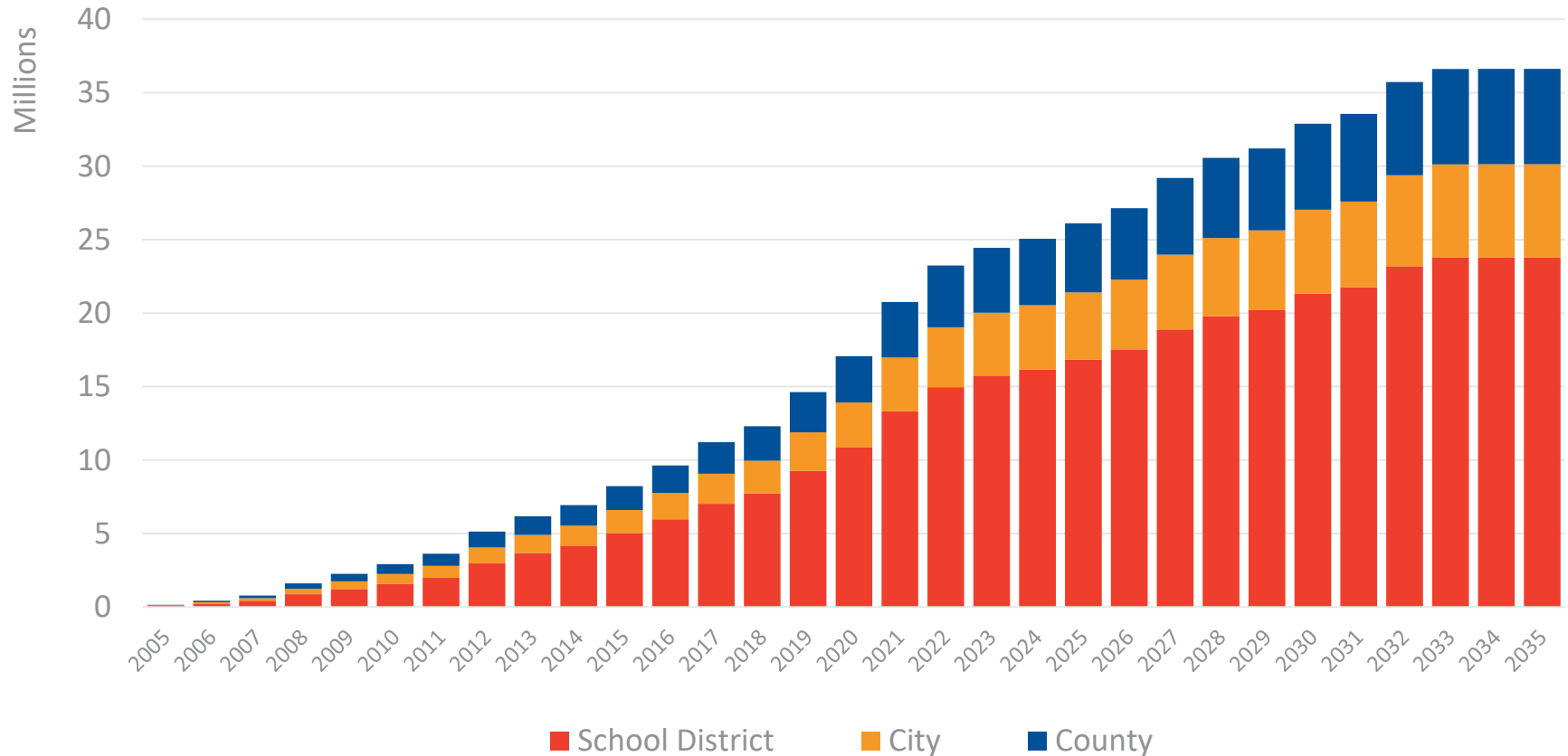
<b>\$170M</b>		<b>\$56M</b>		<b>\$226M</b>
Value of Outputs in 2018	+	Value of Wages in 2018	=	Total Economic Impact in 2018



# Property Tax Revenue from Expired Abatements

## Majority of Tax Revenue From Expired Abatements will Flow to School District

*Estimated Cumulative Property Tax Revenue from Previously Abated Parcels, 2005 to 2035*



The property tax revenue calculated by applying the assessment ratio and appropriate millage rates to the abatement value from the final year of the abatement. The revenue was then held steady each year. Calculations do not account for any changes in the value of the abated portion



# Collecting Community Input

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The study team engaged residents and other stakeholders to gather their perceptions of the tax abatement program and to gather suggestions for how the program could be adjusted to promote the City's equitable development goals.

## Resident Feedback

Listening campaign, focus groups, and one-on-one interviews touching over 250 residents

- Longtime residents, renters, and abatement homeowners
- Mix of ages, race and ethnicities represented
- Participants from 18 diverse neighborhoods including high- and low-pressure areas

## Stakeholder Feedback

Interviews, small group and roundtable discussions with 73 unique individuals:

- Housing & Community Development Professionals
- Real Estate Professionals
- Local Taxing Entities
- Housing Developers
- Lenders and Bankers

# Limited Evidence for Harmful Impacts of Abatements

Do owners of abated properties face foreclosure when their abatements end?



**Strong Evidence Against.** Properties with abatements and expired abatements had lower foreclosure rates than other unabated homes.

Do owners of abated homes move at the end of their abatements?



**Moderate Evidence Against.** Most abatement owners (72%) do not sell their homes within three years of their abatement's expiration.

Do abatements cause surrounding home prices to increase?



**Some Evidence For.** The rate of price increases were similar across the city, but dollar value increases were greatest in areas with the most abatements.

Do abatements lead to greater sales volume?



**Some Evidence For.** Areas with the most abatements have more home sales than other areas, but have seen sales volumes rise at the same rate as other parts of the city with few or no abatements.





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# Recommendations

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# Study Team Recommendations

**Recommendation #1:** Cleveland should continue to offer tax abatement for residential properties tied to green construction standards.

**Recommendation #2:** Cap the maximum abated value for single family abatements at \$300,000.

**Recommendation #3:** Implement a "but-for" requirement for market rate multi-family projects with abatement values above \$5 million.

**Recommendation #4:** Establish a framework for community benefits agreements (CBAs) for developers of multi-family market rate in block groups experiencing high displacement pressure.

**Recommendation #5:** Develop a specific housing market displacement pressure threshold under which the City would automatically trigger adjustments to the tax abatement time period and percentage by block group.

**Recommendation #6:** Implement process improvements to enhance transparency and streamline the application timelines.



*The findings and recommendations presented here represent the team's suggestions prior to the onset of the COVID-19 pandemic.*

*The study team suggests any policy action taken to amend the abatement program be done in concert with the City's forthcoming Ten-Year Housing and Investment Study.*



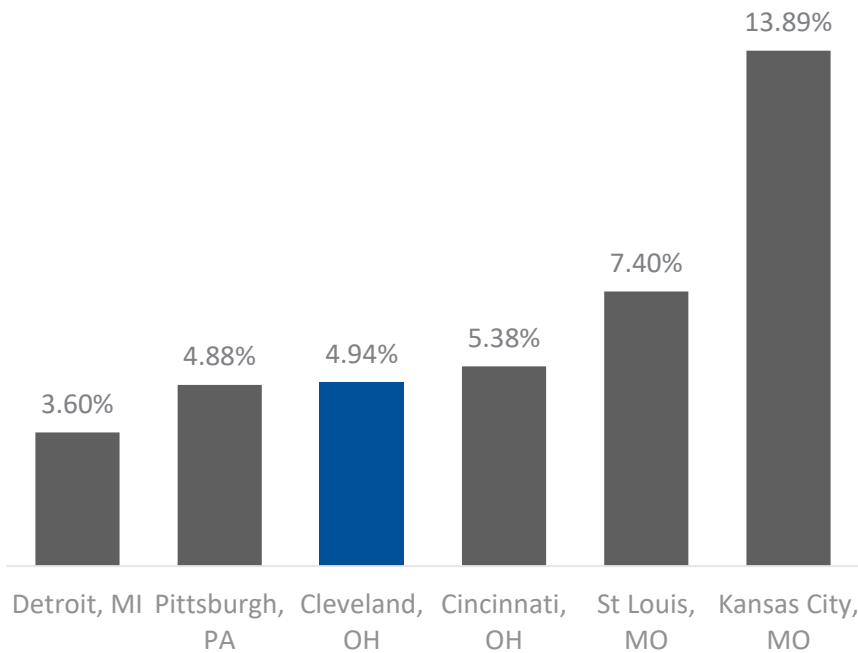
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# REC #1: The Abatement is Still Needed

Cleveland's housing market has made strides, but the recovery remains fragile. The abatement is an important, but imperfect tool to support market investment.

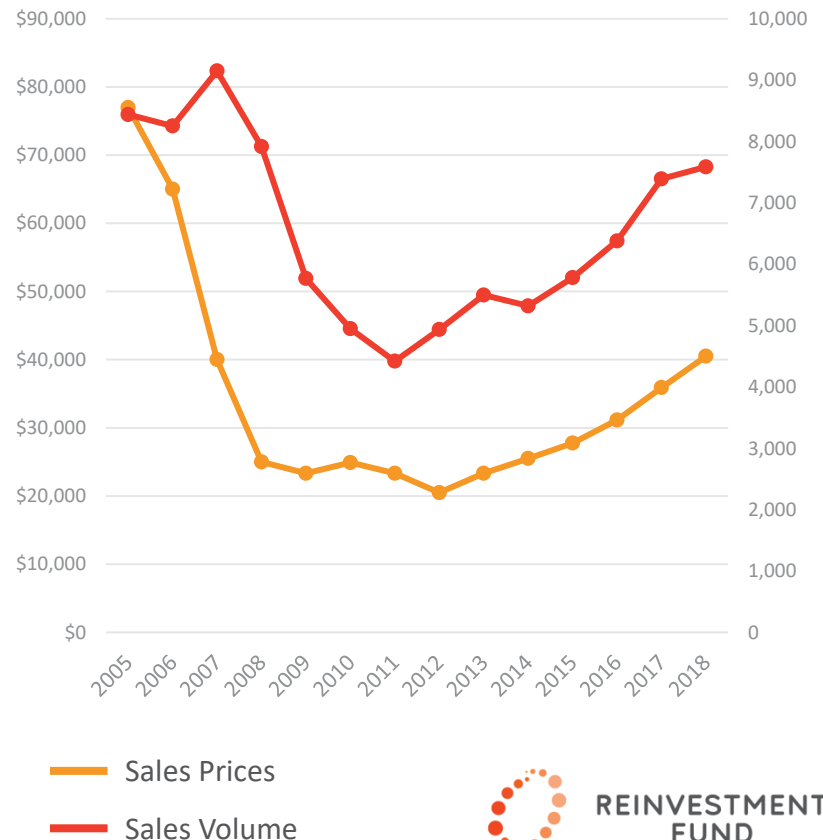
## New Housing Construction Still Lags Peer Cities

*Share of Housing Units Built in 2000 or Later, ACS 2014-18*



## Home Prices Still Recovering from Nadir in 2012

*Median Sales Price, 2005 to 2018*

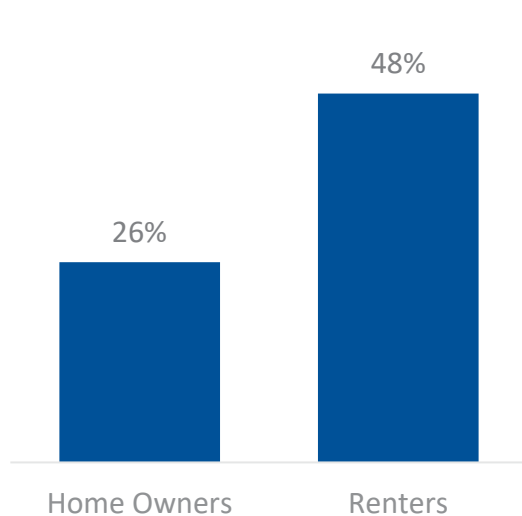


# Additional Tools to Address Housing Affordability

Income, not housing costs appear to be driving housing affordability issues. The abatement does not directly address housing costs. Additional tools designed to directly address resident housing costs are needed.

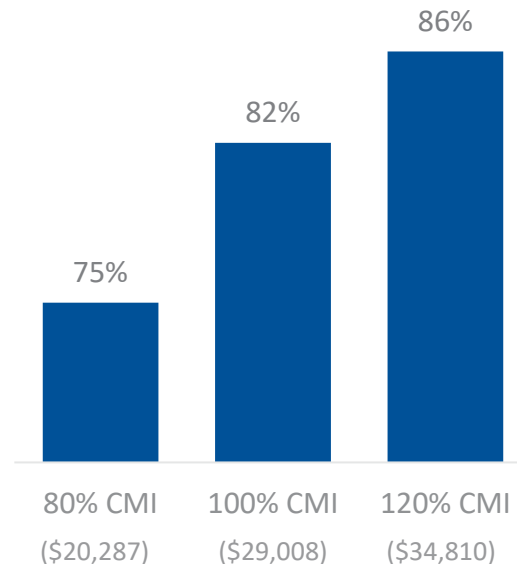
## Substantial Number of Renters and Owners Struggled with Housing Costs

*Share Households Spending Over 30% Income on Housing, ACS 2014-18*



## Low Incomes Driving Challenges as Home Prices are Low

*Share of Homes Sold 2015 to 2018 That were Affordable at Share of City Median Income (\$29,008)*



## Tools to Directly Address Housing Costs Have Been Used in Other Municipalities

- Longtime Owner Occupant Program
- Circuit Breaker Program
- Property Tax Cap
- Inclusionary Zoning Requirement
- Housing Trust Fund

# Property Tax Relief for Longtime Homeowners

- Only the Ohio General Assembly has the authority to pass laws that create new tax exemptions, even at the local level.
- The Greater Ohio Policy Center, along with advocates and experts across the state, are working on policy design for a property tax relief program.
  - This same group has met with policymakers who have introduced two bills addressing this issue: SB 273 (Williams-D); SB 335 (Craig-D)
- There is a sign on letter to support property tax relief in Ohio:  
<https://forms.gle/i2uaQ14EJiWJc8nQ6>  
OR [OHPropertyTaxCap@gmail.com](mailto:OHPropertyTaxCap@gmail.com) to get a link to the form.



## Sign-on to Support Property Tax Relief in Ohio

Prior to the COVID-19 pandemic, several neighborhoods around the state were experiencing change, a rapid increase in property values, and increased tax burdens for homeowners, many of whom are low and moderate income. The pandemic has plunged thousands of Ohio homeowners into economic uncertainty, while housing values in these rapidly changing neighborhoods are still currently strong.

### The Problem

- Increasing property taxes can lead to a higher risk of tax delinquency, tax foreclosure, or displacement.
- Unprecedented rates of unemployment and increasing housing costs have placed a disproportionate housing burden on low-income households.

### The Solution

- Property tax relief - cap or limit annual property tax increases on low income homeowners.

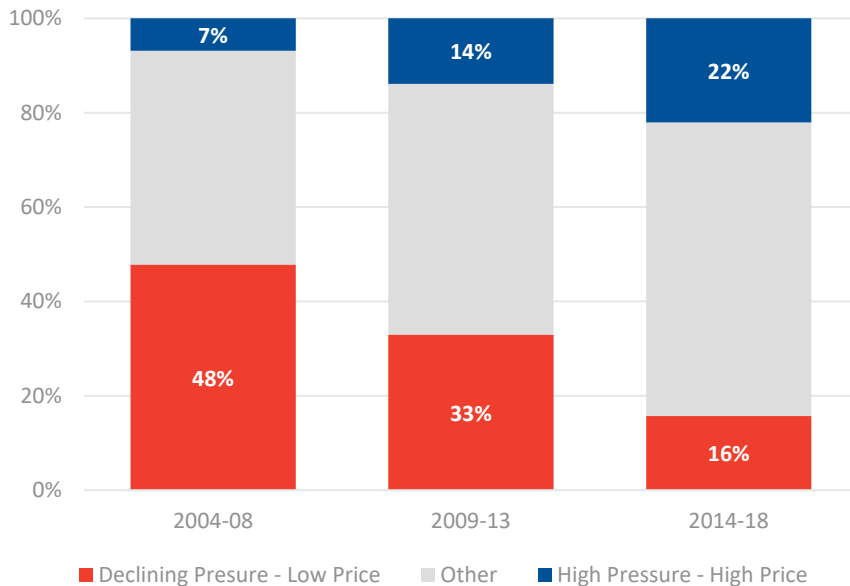


# REC #2: Cap the Maximum Abated Value for SF Homes

Residents and stakeholders affirmed a desire to see development at a range of price points. Capping the maximum abated value of single-family homes at \$300,000 could help reverse growing concentration of abatements in higher price higher pressure markets.

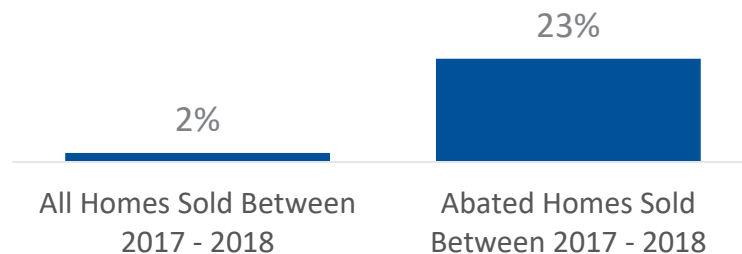
## Abatements Becoming More Concentrated in Higher Pressure, Higher Price Markets

*Share of Abatements Issued by Market Type*



## \$300k Cap Only Impacts Highest End of Market Where Tax Costs Unlikely to Drive Decision

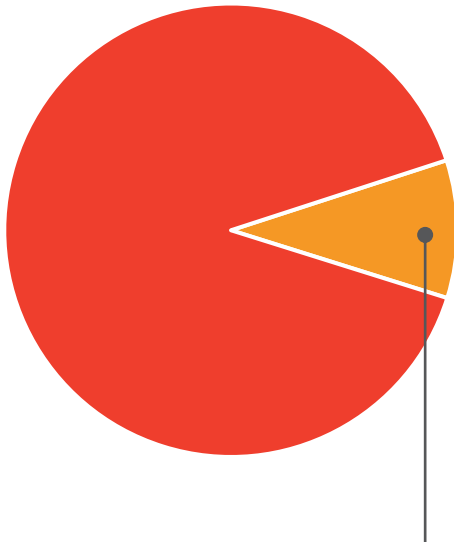
*Share of Homes Sold for Over \$300,000, 2017 to 2018*



## REC #3: Implement a “But-for” Test for High Cost MF Projects

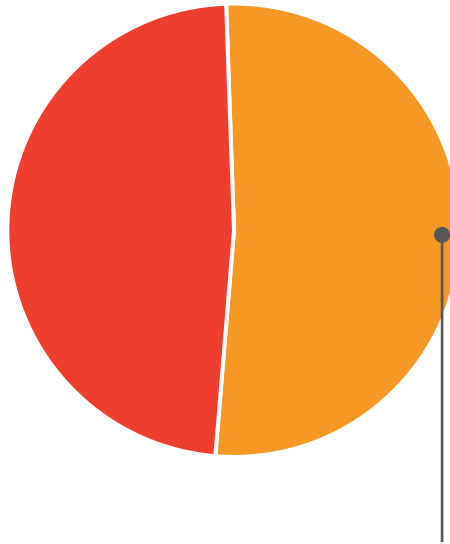
In focus groups and interviews residents expressed concern that abatement benefits went to large developers. Multi-family parcels make up a small share of abatements, but disproportionate share of the total abated value. Requiring a higher burden of proof for large projects will help ensure that the abatement targets projects that could not be built without the subsidy.

**Number of Projects Abated in 2015 to 2019 with Market Value Over \$5M**



**11%** of multi-family parcels abated between 2015 and 2019 had market value over \$5M

**Share of Abated Market Value in Projects Valued Over \$5M**



**52%** of all market value abated between 2015 and 2019 was in multi-family parcels valued over \$5M

**Design Considerations for Potential “But-For” Test**

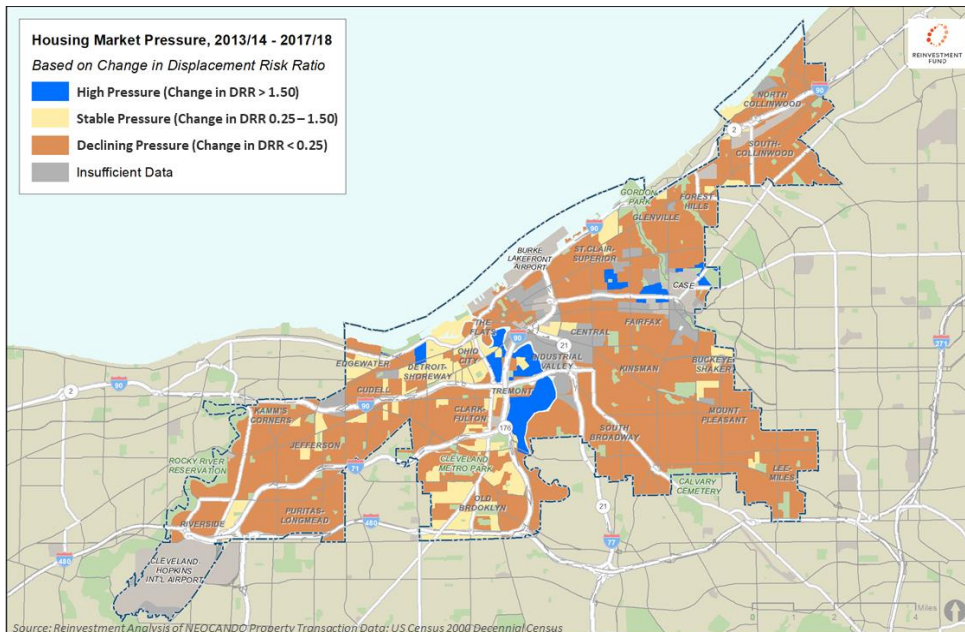
- Exempt projects designed to create subsidized affordable housing
- Exempt market rate projects where meaningful portion of units are priced affordably
- Only target largest projects (Over \$5M in abated market value)

# REC #4: Create Framework for CBAs in High Pressure Markets

Community Benefits Agreement (CBAs) are signed contracts between the city and real estate developers that requires the developer to provide specific amenities and/or mitigations to the local community or neighborhood where they are engaged in development activity.

**Currently, Only 3% of Cleveland's Block Groups Experience High Displacement Pressure. But in High Pressure Areas, Developers Should Mitigate Negative Impacts of Development.**

*Areas Identified with High Displacement Risk*



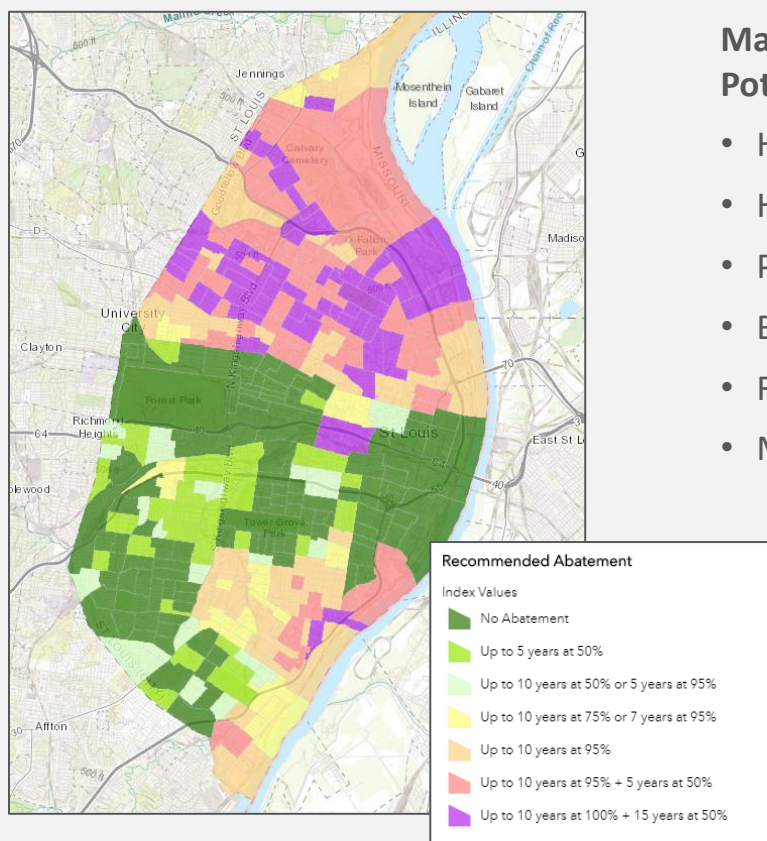
**Design Considerations for Community Benefits Agreements Tied to Abatements in High Pressure Areas**

- Only apply to multi-family developments
- Establish clear and consistent criteria for thresholds that trigger CBAs
- Exempt projects designed to create subsidized affordable housing
- Terms of the CBAs aligned with the City's broader housing strategy
- Consider provisions for: contribution to housing trust fund, set asides for affordable units in market rate developments
- Require benefits to accrue in immediate area around development

# REC #5: Develop Adjusted Abatement in High Pressure Markets

The increasing concentration of tax abatements threatens residents' desire to see the abatement drive reinvestment across Cleveland. Any adjustments to the abatement based on geography should be carefully calibrated to strength in the housing market. The city's 10-year housing plan provides an opportunity to explore market-based criteria for altering the abatement.

## Case Study: Market-Adjusted Tax Abatement Terms in St Louis



### Market-Based Components for Potential Cleveland System:

- Housing Values
- Housing Vacancy
- Property Investments
- Blight
- Resident Tenure
- Market Pressure

### Critical Administrative Considerations:

- Clear and objective market definitions
- Transparent system for updating definitions
- Adequate notification safeguards to minimize disruption to development timelines

Source: <https://www.stlouis-mo.gov/government/departments/sldc/economic-development/financing/real-estate-tax-abatement.cfm>

## REC #6: Improve Abatement Transparency and Process

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Feedback from stakeholders identified several pain-points in the abatement application. While many components of the application are likely required by state statute or administrative expediency, the city should review the application with an eye towards streamlining the application and creating a process to notify other taxing authorities of pending or approved abatements.

### **Streamline Application**

- Simplify instructions and procedures for homeowner and developer-led renovations
- Create single point of contact for process and application questions

### **Improve Transparency**

- Create process point where city notifies other taxing authorities of pending or approved abatements (as is currently done with school district)

# Questions?

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