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Ohio Revised Code – Abatements and Exemptions

Types of Abatements	Ohio Rev. Code	Abatement	Time Period	School Board Approval Req'd
Project or Parcel TIF	Ch. 5709	Up to 100%	Up to 30 years	Yes
Enterprise Zones				Yes
Brownfields				No
Local railroad operation				No
Community Reinvestment Areas	Ch. 3735	Up to 100%	Up to 15 years	
For residential purposes				No
For commercial or industrial purposes				Yes
Urban Renewal	Ch. 725	Up to 100%	Up to 30 years	Yes
Nuisance Abatement		Up to 100%	For single tax year	Yes
Community Redevelop. Corps.	Ch. 1728	Up to 100%	Up to 30 years	Yes
Tax Exemptions	Ch. 5709	Not taxable	Indefinite	No

Ohio Revised Code – CRAs and TIFs

- Community Reinvestment Areas CRA (R.C. Ch. 3735)
 - With agreement of the Board of Education, CRA may be offered to abate up to 100% of taxes on renovations or new construction
 - Without agreement of the Board of Education, CRA may be offered to abate up to 50% of taxes
- Tax Increment Financing TIF (R.C. Ch. 5709.40)
 - With agreement of the Board of Education, TIF may be offered on up to 100% of increased value for up to 30 years
 - Without agreement of the Board, TIF may apply to up to 75% of new value of project or incentive district for up to 10 years

Ohio Revised Code – Income Tax Reimbursement

- R.C. 5709.82 allows an agreement between a city and school district whereby the school district is compensated for tax revenue foregone by the school district as a result of tax exemption.
- If the abatement results in new incomes of at least \$1 million, and an agreement cannot be reached within six months, the city shall compensate the school district in an amount equal to 50% of the new income taxes less the cost of any infrastructure costs incurred in that year.

Background to 1999 Agreement



1999 Agreement

- Arose out of County-City MOU (1996) relating to the Stadium Taxes
 - County agreed to contribute an amount equal to the property taxes foregone by exemptions offered on new stadium properties – then estimated to be around \$5 million per year
 - City and County agreed that the tax would also generate an additional
 \$5 million per year for capital improvement needs of the Board

1999 Agreement

The City negotiated that its \$5 million shall be in lieu of the "Additional Tax Revenues" that would have been generated by abatements approved by the City.

"The payments hereunder are made as compensation to the Board (as authorized by statute) for additional property tax revenues that the Board would have received if the City had not authorized tax exemptions for certain projects, assuming that those projects would have been constructed without the City-authorized tax exemption." (1999 Agreement, p. 2).

1999 Agreement – Key Terms

- Annual \$5 million payment from the City to make up for "Additional Tax Revenues"
- 20-year term payments not to exceed \$100 million in payments from the City
- Board approval of tax exemptions and tax credits authorized by the City
 - 25% PILOT for new CRAs from developer
 - 27% PILOT for new TIFs from developer (2012 Amendment)
- Waiver of notice and income tax reconciliation



- Parties to meet and confer annually (not later than February 1) to share information pertinent to Additional Tax Revenues.
 - Board to provide report on status of agreements
 - City to provide initial calculation of additional revenues and to consider and respond to any objections by the Board to the City's calculations

1999 Agreement – Key Terms

- "In each year during the term, City agrees to provide municipal services benefitting the Board in the form of school nurses, school crossing guards, and school resource officers . . ."
 - Extent of services determined by the City and conditioned on appropriation of funds.
 - Failure to provide not a breach or default
- Annual cost to CPS
 - School nurses -- \$1.6 million
 - Crossing guards -- \$700,000



Fixed Sum vs. Fixed Rate Levies

Two types of levies:

- Fixed Rate Levy revenue generated fluctuates based on the total value of taxable property
 - Current Expense
 - Special Purpose
- <u>Fixed Sum Levy</u> designed to raise specific dollar amounts.
 Millage amount is recalculated based on the total value of taxable property
 - Emergency, substitute, conversion
 - Bond (debt)

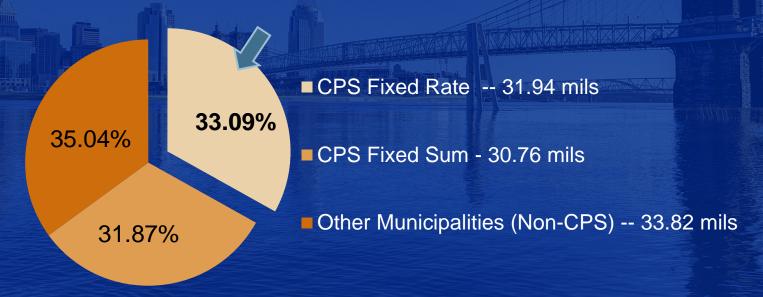
Fixed Sum vs. Fixed Rate Levies

Fixed Sum Levies	Fixed Rate Levies
Emergency -\$65.2M (9.95 mils)	Inside Millage (4.19 mills)
Emergency- \$48.0 M (7.63 mils)	Current Expense (27.75 mils)
Emergency- \$51.5M (8.18 mils)	
Bond - \$ 480M (5.0 mils)	
30.76 mils	31.94 mils

Source: Hamilton County TY 2018

CPS Fixed Rate Millage

Percentage of CPS Fixed Rate Levies as Percentage of All Property Taxes



Effective total millage – 96.515579

Source: Hamilton County TY 2018

Net Impact of Abatements Last Five Years

Tax Year	Estimated TIF Value	CRA Value	Estimated Total Abated	Estimated Foregone Taxes	Total PILOTS	Estimated Net Impact
2012	\$334,613,717	\$71,156,075	\$405,769,792	(\$12,430,899)	\$9,165,085	<u>(\$3,265,814)</u>
2013	\$400,898,854	\$95,049,051	\$495,947,905	(\$15,271,831)	\$11,417,060	<u>(\$3,854,771)</u>
2014	\$480,226,272	\$125,972,903	\$606,199,175	(\$19,055,473)	\$13,979,964	<u>(\$5,075,509)</u>
2015	\$535,807,984	\$153,551,311	\$689,359,295	(\$21,835,704)	\$15,840,150	<u>(\$5,995,554)</u>
2016	\$534,278,537	\$199,005,786	\$733,284,323	(\$23,173,272)	\$18,359,433	(\$4,813,839)
2017	\$641,572,527	\$290,915,044	\$932,487,571	(\$28,557,854)	\$22,852,876	<u>(\$5,704,978)</u>

Example

	Under Agreement	Rolls on to Tax duplicate
Abatement Value	\$ 1,000,000	\$1,000,000
Assessed Value 35%	\$ 350,000	\$ 350,000
Pilot Calculation	350,000 * 96.515579/1000 = 33,780.45	350,000 * 31.94 (fixed rate mills)/1000 =
CPS billing	25% = \$ 8,445.11	\$ 11,179.00
		Incr. \$2,734 per year

Effect on State Foundation Funding

- The "make whole calculation" does not (and should not) include state funding.
 - City has said that the District receives additional state funding when the District's taxable property value is reduced by abatements.
- The calculation of state foundation funding is not within the City or CPS' control.
- Unpredictable how school districts will be funded in the future too speculative to include in the "make whole calculation."

Residential CRAs Not Reimbursed

	2018	2017	2016
Market Value of Residential CRA Abated Properties	\$960,869,147	\$1,075,709, 222	\$703,556,550
Taxable Value of Residential CRA Abatements (35%)	\$336,304,201	\$376,498,227	\$246,244,792
Fixed Rate Residential Millage	22.216777	22.167458	23.284586
Estimated Foregone Taxes Related to Residential CRA Abated Properties	\$7,471,595	\$8,346,009	\$5,733,708

Source: Hamilton County Auditor



Recommendation

Primary outcome for the District should be that the successor agreement makes the District whole for the property taxes foregone by abatements and exemptions authorized by the City.



1. Reduce term of agreement

- 20-year term in the 1999 Agreement unworkable
- Too difficult to predict city / school district funding and demographics of the city

2. Re-calculate reimbursement rate for School District millage on an annual basis

 As the millage rate changes, the reimbursement rate to the school district also should change

3. Avoid in-kind elements to reimbursement

- Cost of nurses, crossing guards, etc. difficult to estimate
- City failed on promise to maintain nursing and crossing guard services

4. Recover full reimbursement for "grandfathered agreements"

 Without \$5 million payments from the City, the school district will not be made whole for the existing and outstanding CRAs and TIFs

5. Seek reimbursement for District's administrative costs

District's administrative costs of invoicing and managing abatement agreements should be recouped

6. No extensions or amendments of CRAs without CPS approval

Letter from City Manager -- May 7, 2019



Statements from City Manager Patrick Duhaney's Memo dated May 7, 2019

"Continued economic growth is critical to a healthy and thriving City and school system."

- Continued success of the School District also has a direct and positive correlation on the City's continued economic growth.
- High-performing school district drives up real estate values.
- Well-educated workforce needed to drive economic growth.



- CPS's impression that the 1999 Agreement provides important incentives to the City to attract new development.
- The rate at which the City approves new CRAs also suggests that importance of the incentives – nothing requiring the City to use those incentives now – and yet they are routinely offered and approved.
- While it is true that the City has the authority to offer certain incentives unilaterally, without the School District's approval, the incentives available are more limited – both in percentage of the abatement and duration. Without School District approval, the City would be subject to administrative requirements, such as notice and possible repayment of income taxes.

"Since property tax incentives reduce the amount of property value subject to taxation, property tax incentives decrease CPS revenue under the fixed-rate levies."

 City uses an example of \$1 million abated values. Based on CPS's 31.94 mills fixed rate tax levy in TY 2018, the loss in revenue to CPS is \$11,200.

"PILOTs create a new local revenue source for CPS."

 The revenue that would otherwise be generated is offset by the 25% PILOT from the developer – as a condition for offering the incentive. In the case of \$1 million in abated value, \$8,500 would be owed from the developer in a PILOT payment – as a replacement for the abated tax revenues.

"The State of Ohio distributes funding to local school districts based on a complex formula that accounts for many variables . . ."

- City provides no explanation as to how it calculated the impact on state funding.
- The City Manager's conclusion that CPS's net annual revenues increase because of tax abatement incentives rests entirely on the faulty and speculative inclusion of state funding impacts in the "make whole" calculation.
- The notion that CPS's net annual revenue increases because of abatements is also inconsistent with the 1999 Agreement – which expressly recognizes that a 25% PILOT will not fully reimburse the school district for lost revenues from tax incentives – which is why the City has made annual \$5 million payments to CPS for the last twenty years. (See 1999 Agreement, p. 2).