

REPORT OF THE AUDIT COMMITTEE

The Audit Committee met on Tuesday, June 26, 2018 at 4:30 PM at the Cincinnati Public Schools Education Center in Conference Room 1-A.

Robotics Process Automation Project Update

Sarah Trimble-Oliver, Chief Information Officer

Mike Gustin, Director of Financial Systems

The Audit Committee met on Tuesday, March 28, 2017 and discussed efficiencies in the charter schools reconciliation process. Committee member Jeff Orschell inquired about the possibility of using Robotic Process Automation (RPA) to add efficiencies to the new charter reconciliation process.

Mr. Gustin and Ms. Trimble-Oliver updated the Committee about Robotic Process Automation (RPA). RPA creates software-based bots that are capable of following pre-scripts in order to complete work that would normally require manual interaction. The bots would be beneficial for work that is repetitive, time consuming, and has the ability to apply rules. The purpose is not to replace people, but to free-up individuals in order to do more creative and customer work.

Ms. Trimble-Oliver reported that CPS is doing a RPA pilot for payroll audits and uploading data to [OpenGov](#). She also informed the group that the technology will be beneficial for CPS and she is seeking licensing and looking for a development partner. The bots can also be used to do analytics. The evaluation, success, and impact of the bots will occur in April 2019.

Internal Audit Annual Report

Lauren Roberts, Internal Auditor

Ms. Roberts updated the Committee on her Internal Audit Annual Report for the fiscal year that ended June 30, 2018. The report provides a summary of the audit function including the services provided by the Internal Auditor. It also summarizes the status of the Internal Audit recommendations that have issued throughout the 2017 and 2018 fiscal years.

The following are reports that have been issued over the past two fiscal years:

Internal Audit Report	# of Recommendations	Complete	In Progress	No Evidence Reported
Data & Access Security	7	0	7	0
Charter Funding Follow Up**	6	0	6	0
Procurement Cards	18	1	17	0
Payroll	6	0	5	1

Internal Audit Report	# of Recommendations	Complete	In Progress	No Evidence Reported
Voucher Funding	5	1	0	4
SunGard Conversion	9	6	2	1
Total	51	8	37	6

**The status of each recommendation was reported to Internal Audit by the process owner. Internal Audit reviewed management status responses for reasonableness but full follow up procedures were not executed for the purposes of this report.*

***The original 15 recommendations from the Charter Funding report (released March 28, 2017) were converted into the 6 recommendations in the Charter Funding Follow Up report (released April 24, 2018).*

Audit Committee member Christine Fisher recommended that Ms. Roberts include in her plan an overall budget proposal in order to identify areas of priority.

A copy of Ms. Robert's report is available in the Board office.

Charter School Project Plan

Connie Solano, Director, Performance and Accountability

Ms. Solano informed the Committee that she is in the final phases of creating a manual, as recommended by Ms. Roberts. Ms. Solano is creating Standard Operating Procedures for processes that are conducted in EMIS.

Ms. Solano is collaborating with the Customer Help Center on charter school students registering through Gateway.

She reported that House Bill 21 passed in June 2018. The Bill requires charter schools, instead of school districts, to verify charter school student residency and enrollment on an annual basis.

Ms. Solano reported that the District has a right to request information from charter schools that state their students live in CPS attendance area.

She also reported that more than 9,000 students are attending charter schools and she will be asking for those students' records and proof of residency as allowed by the law.

She informed the Committee that she needs the charter school calendars too, as they contain the number of days of instruction offered in a school year. This will help to determine a base FTE estimate for students for which the charter schools did not receive funding.

Ms. Solano is working with Public Affairs to determine if charter school parents responded positively to the District's touch points.

She met with the District's lobbyist and asked for the following:

- The ability to upload proof-of-residency documents to the [Ohio District Data Exchange \(ODDEX\)](#) system;
- Charter schools have their bona fide calendars on the ODDEX; and
- ODE upload in ODDEX the total FTE and funds each student will cost the District.

Ms. Solano will update the Committee about the charter school project plan on a bi-monthly basis.

ACTION: Committee member Bates advised to have the District's lobbyist work with the State Auditor regarding CPS' auditing process that was used for charter school enrollment. The Audit Committee will recommend that the Finance Committee raise this issue with District's lobbyist at Finance Committee meeting.

Update on Tax Abatements

The Committee continued its discussion on how CRAs (Community Reinvestment Act) impact taxpayers and the impact on levies having the ability to raise and renew funding.

The Committee reiterated discussions that took place at the Board's June 5, 2018 Special Public Joint Meeting with the City of Cincinnati's Education and Entrepreneurship Committee.

The Committee talked about when there are abatements someone has to make up the difference, possibly individuals owning unabated properties, and that the impact is not the fault of CPS' levies.

Mrs. Wagner reported that the community may not understand the scope of CRAs and TIF (Tax Increment Financing) districts (approx. 14,000 parcels) and TIF projects. Mrs. Wagner reported that CPS has approximately 240 TIFs. The City bills the TIFs and CPS bills the CRAs.

Julie Sellers, CFT President, informed the group that she did a public records request for every abatement that was awarded and ones still active, and she received several different types of abatements. She reported that most of the abatements are in Hyde Park, Mt. Adams, Mt. Lookout, and Over-the-Rhine and that 37 percent of City property is abated.

Committee member Fisher recommended that the Audit Committee's focus should be on the current individual agreements and making sure that loops are closed in order to get revenue that is agreed upon, instead of working to change the City's process on abatements, although it does need to happen. The Finance Committee and the Board should have the responsibility of working with the City on the abatement process.

Mrs. Wagner reported that through the Finance Committee, a project team has been put together to work on negotiations of the 1999 Agreement.

ACTION: The Audit Committee will focus on parcels that are billed through the District. Mrs. Wagner will provide a progress update as needed.

Other Business

Ms. Sellers provided the Committee with a copy of a letter regarding tax abatements that she sent to City Councilman PG Sittenfeld. She also provided a letter containing an update on tax abatements from the Cincinnati Federation of Teachers. Please find attached a copy of the documents.

ACTION: The Audit Committee asked to receive a process map of the ongoing process of Tax Abatements. The group also recommended that the District's lobbyist put laws in place about how tax abatements are reported.

The meeting adjourned at 6:00 PM

Audit Committee

Brian Ross, Chair
Jennifer Couser
Jim Crosset, CLM
Christine Fisher
David Foote, CPA
Thomas D. Heldman, CPA
Daniel E. Holthaus, CPA
Carol Lawrence
Jeffrey L. Orschell
Clarice Warner
Melanie Bates (Finance Committee)
Ericka Copeland-Dansby (Finance Committee) *absent*
Ryan Messer (Finance Committee)

Staff Liaisons

Jennifer Wagner, CFO/Treasurer
Lauren Roberts, CPA, Internal Auditor

Cincinnati Federation of Teachers

Cincinnati Federation of Office Professionals



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June 4, 2018

Councilman PG Sittenfeld
Cincinnati City Council
Cincinnati City Hall
8th and Plum Street
Cincinnati, OH 45202

Re: Tax Abatements

Dear PG,

I was happy to hear that you have scheduled a discussion of the City's various tax abatement programs before your committee on Tuesday. While I will not be able to attend due to a prior commitment, I wanted to share the concerns of our members about the impact of tax abatements on our city's schools and other important local services.

Tax abatements may be a useful tool to encourage development in blighted neighborhoods, or during an economic downturn. But the city's ongoing grant of lengthy abatements in thriving neighborhoods short changes our schools and local services. Abatements also place an unfair and increasing burden on owners of older homes and businesses.

CFT has been examining records produced by the City and available from the County Auditor in recent weeks. Here are some facts that your committee should consider:

- More than 287 properties have received tax abatements under the **Commercial** Community Reinvestment Area (CRA) program. City records show that the current abated value (i.e., the untaxed value) for just those properties totals more than **\$676 million**.
- Since 2012 the city also has granted abatements to more than **1342 residential properties**. The current abated value on those properties exceeds **\$164 million**, which does not include more than 100 properties still under construction.
- Rather than encourage development in blighted neighborhoods, the lion's share of residential abatements have gone to thriving neighborhoods. **Hyde Park and Mt. Lookout** alone have received about **20%** of all city residential abatements. Now residents of those neighborhoods are complaining about the teardowns and subdivisions that are encouraged by the availability of abatements for new construction.

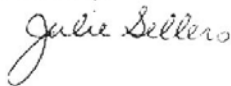
- The city has also granted what amount to abatements through its TIF programs, or on properties developed via the **Port Authority**. There appear to be more than 40 such properties. (Example: Queen City Square building at 401 E. 4th St. is valued at more than \$243 million but appears to pay for schools and local services only on the value of its underlying land).
- Our current estimate is that there is about **\$1.2 Billion** in abated real estate value in the City, including commercial and residential CRA's and TIF properties.
- All these abatements short change our schools and other local services – ranging from the city to the library, zoo, children's services, indigent health care, etc. Abatements force unabated tax payers to assume an ever-growing burden of real estate tax payments. The Auditor reported that in the last 15 years **the percentage of tax exempt property in the county grew from 10% to 25%**. That percentage is surely higher in the city, which has been much more generous in granting abatements.
- An agreement between the City and Cincinnati Public Schools (CPS) was intended to compensate the schools a total of only \$5 million for the loss of school funds due to abatements. That agreement expires next year and must be renegotiated. While \$5 million may have been a fair estimate of lost revenue back in the 1990's, it clearly falls short now. Commercial properties are supposed to pay the CPS the equivalent of taxes due on 25% of their properties' value. But abated residential property owners have no such obligation.
- Our rough estimate is that *without* abatements, property owners would be paying an additional **\$29.4 million** in real estate taxes on \$1.2 Billion of abated value, of which **\$19.4 million would go to CPS**. The payments in lieu of taxes received by CPS from commercial property owners amount to only about \$6 million / year. So even with the \$5 million payment from the City, **CPS is losing about \$8.4 million, and other local services are losing an additional \$10 million.**

It is past time for the City to scale back tax abatements, which short change our schools and local services, forcing owners of older homes and businesses to pay an increasing portion of the property tax burden. We hope Council will consider the following:

- **Increasing annual payments from the city to CPS from the current \$5 million amount to an amount that will cover CPS's lost revenue from current abatements.**
- **Limiting new abatements to blighted neighborhoods in genuine need of new investment. Stop abating taxes in thriving neighborhoods like Hyde Park, Mt. Lookout, Mt. Adams or OTR.**
- **Reducing the length and percentage of any new abatements.**

Thanks for beginning this long overdue discussion of the abatement program. CFT looks forward to working with you and City Council to restore some common sense to the distribution of the property tax burden to Cincinnati tax payers.

Sincerely,



Julie Sellers

President, Cincinnati Federation of Teachers

Cincinnati Federation of Teachers

Cincinnati Federation of Office Professionals



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June 25, 2018

Update on Tax Abatements from CFT:

According to a recent statement by County Auditor Dusty Rhodes, 36.42% of City of Cincinnati real estate is now tax exempt, with that percentage increasing every year.

30% of that (or 10% of all city real estate) is now tax exempt due to tax abatements granted by the city.

Exemptions come via **Community Reinvestment Area (CRA)** (commercial and residential) and **Tax Increment Financing District (TIF)** ordinances.

CRA Abatements

Commercial Abatements:

Total: **287**

Current Abated Value: \$676,856,530

X .35

Total Assessed Value: \$236,899,786

District's Typical Share: X .063244

\$14,982,480 / yr.

Less 25% payment in lieu of taxes (if made):

5,536,348 / yr.

Difference (potential lost CPS revenue): \$9,446,132.

Residential CRA Abatements:

Total Granted since 2015: **1342**

Current Abated Value: \$164,407,130 (at least)

X .35

Total Assessed Value: \$57,542,496

District's Typical Share: X .063244

Lost CPS Tax Dollars: \$3,639,218

(does not include about 250 projects approved but not yet completed)

Note: About 20% of residential abatements in terms of numbers of homes / units and value of abatement have gone to two neighborhoods: **Hyde Park and Mt. Lookout.**

NOTE: Residential abatements do not involve agreements to pay CPS in lieu of taxes)

**Total Lost CPS Revenue Due to CRA Abatements:
\$13,085,350**

TIF Lost Tax Revenues:

City has not produced documents that allow a complete evaluation of total TIF related abatements.

Examples:

Queen City Tower, 301 E. 4th St.

Market Value: \$243,128,850

Tax Paid to CPS: only \$23,126 (rather than \$2,684,930 due at full rate)

Great American Tower, 303 Broadway

Market Value: \$41,856,480

Tax Paid to CPS: only \$2,416.29 (rather than \$462,231 at full rate).

CFT estimates a total of at least \$600 million in real estate value covered by TIF agreements.

Question: Does CPS have agreements in lieu of taxes for *all* TIF developments?