



For sale \$1,695,000

*Landmark architecture one block from Hyde Park Square! 3500 sq ft penthouse with large, open living areas. Light-filled corner unit with 8 ft windows & 10 ft ceiling. **Tax abatement**, 75 SF storage unit, 3 parking spaces and 2 large balconies.*

Property taxes are the primary source of funding in Ohio for schools and county services. However, not all property is taxed. According to the Hamilton County auditor, nearly one in four properties in the county is exempt from some portion of the tax and the number is fast increasing.¹ As voters are asked to approve tax levies for needed public services, questions about the fairness of the tax abatement system are being raised.

Generally, public property is exempt from taxation, as are churches, cemeteries and “property used exclusively for charitable purposes” like nonprofit hospitals. The Hamilton County Auditor reports about \$6.4 billion dollars of real estate is exempt from property tax in the county. About \$2.8 billion are tax abatements given to private property, the rest are exemptions

for government owned property, churches, and hospitals. The categories are not distinct, however. One form of tax shelter is for government entities to buy and hold property needed by a private business, then lease it to the business. Because the property is government owned, it is exempt from property tax. This method is why the Port Authority, a government entity, became the owner of the new FC Cincinnati soccer stadium.

Tax abatements for the \$2.8 billion of private property are given as an incentive to economic development. The General Assembly authorizes counties, townships and municipalities to give tax abatements to promote economic development, promote urban renewal and revitalization activities and encourage the retention and creation of jobs. The laws and various programs under which the abatements are approved are complex and a full description is beyond the scope of this Study Guide.

The most prominent of the state laws permits local jurisdictions to create Community Reinvestment Areas and abate taxes on improvements within the Areas to promote development. Cincinnati has named the entire City as a Community Reinvestment Area permitting tax abatements in all neighborhoods. The rules distinguish Residential and Commercial Tax Abatements. “Residential” includes all condominiums and houses up to three units. “Commercial” includes all other developments including apartment buildings.

¹ <https://www.bizjournals.com/cincinnati/news/2017/03/17/auditor-sounds-alarm-over-more-properties-getting.html>

Six Cincinnati neighborhoods account for 65% of residential tax abatements:²

Hyde Park, 262 properties worth \$42,042,383
Over-the-Rhine, 194 properties worth \$20,224,475
Walnut Hills, 51 properties worth \$13,489,933
East End, 25 properties worth \$11,707,328
Columbia Tusculum, 92 properties worth \$10,902,017
Mount Lookout, 143 properties worth \$9,603,488

Residents of these and other neighborhoods are raising concerns about Cincinnati's generous policy of offering tax abatements on new high-end residential property.

- Residents of established neighborhoods like Hyde Park and Mt. Lookout are concerned the abatements are fueling demolition of good homes and their replacement with large houses built on small lots. The expensive new houses are then sold with tax abatements.
- In changing neighborhoods, the abatements fuel gentrification and the displacement of lower income, longtime residents, including homeowners who have trouble paying the increasing property taxes on their older homes.
- Many homeowners who pay full property taxes are upset when they hear wealthy new neighbors are paying very little tax on much more expensive houses. This sense of unfairness is felt strongly when Realtors advertise million dollar condos highlighting a 10 or 15 year tax abatement. One Realtor created an uproar by sending postcards to the neighborhood advertising a new \$500,000 home bragging about the tax abatement. Some fear this sense of unfairness will affect voters being asked to approve property tax levies for essential county services.



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Totally restored 2017 custom design home was taken to the studs and rebuilt. New kitchen, plumbing, baths, electric, roof, walls, doors, etc. 2nd flr laundry, tax abatement and just 2 blocks to HP Sq!! \$275,000 tax abatement through 2027 (savings of approx. \$7,000 year!)

On the other hand, the City's Department of Community and Economic Development, which administers the tax abatement program, believes it successfully meets its goals: 1) stimulate community revitalization, 2) retain City residents, 3) attract homeowners, and 4) reduce development costs of home-ownership and rental projects. They also point out that tax revenue is not reduced because of the abatements. It just isn't increased as new developments are built and those projects might not have happened without the incentive of the tax abatement. The abatements are also used to encourage other goals with further tax reduction allowed for energy efficient projects and houses that are visitable.

² For residential abatements in all Cincinnati neighborhoods see <https://www.cincinnati.oh.gov/planning/assets/File/Residential%20Tax%20Abatement%20One-Pager.pdf>

Effect on Public Schools

Property taxes are the primary source of revenue for public schools. In 1999, the City of Cincinnati and the Cincinnati Board of Education entered into a 20-year tax abatement agreement. The big issue in 1999 was the loss of property tax revenue with the two new sports stadium being built on the riverfront. Under the agreement the schools were to receive \$5 million annually from the City plus commercial developers receiving abatements had to agree to make Payments in Lieu of Taxes (PILOT) to the schools. The school system receives nothing with Residential Tax Abatements. The total received by the schools is less than they would receive without the abatements, but the school board recognized the value of the promised economic development for the school system.³

The agreement between CPS and the City expires at the end of this year and is currently being renegotiated. The situation has changed significantly since 1999. The school system is struggling to serve an increasing number of students with relatively flat revenue. At the same time the City has increased its use of tax abatements. As of this writing, negotiations were contentious and not progressing. Without an agreement, state law requires the City to individually notify and allow school board comment on every commercial CRA tax abatement and requires school board approval of all commercial CRA abatements over 50% of property value.⁴

Effect on County Tax Payers outside the City

Why should people living outside the City of Cincinnati care if the City is forgoing taxes on properties in the City? Many property tax levies are countywide, meaning they are paid by all property owners in Hamilton County, e.g. Parks, Library, Developmental Disabilities, Children's Services, Senior Services. When the City abates property tax, the property is also exempt from these County levies. Some of the levies are Fixed Rate, meaning the rate paid by each property owner is fixed for the term of the levy. However, some levies are Fixed Amount, meaning the same total amount of taxes must be collected regardless of the value of the property. When property in the City is exempted from paying tax, the other property owners, including those in the County, must make up the difference.

Property taxes make up only about 7% of total City revenue. The primary revenue source for the City is the earnings tax.⁵ From a financial point of view, the City loses little revenue by giving property tax abatements and stands to gain higher income residents who will be paying the

³ Cincinnati Public Schools presentation, https://www.cps-k12.org/sites/www.cps-k12.org/files/pdfs/Tax-Abatement-Explanation-5-8-19_1.pdf

⁴ Ohio County Commissioners Handbook, by the County Commissioners Association of Ohio, 2016, Chapter 5 Tax Abatements, <http://www.ccao.org/wp-content/uploads/Chapter%2015%20Tax%20Abatement%2001%2029%2016.pdf>

⁵ FY 2019 Recommended All Funds Budget Update, p. 13 <https://www.cincinnati-oh.gov/finance/budget/recommended-fy-2019-budget-update/>

earnings tax. In contrast, the primary revenue source for the County is the sales tax with about 16% coming from property taxes.

Working Group

A Property Tax Working Group was established by Cincinnati City Council in September 2018. It was charged with recommending ways to ensure property owners, particularly long-time residents and senior citizens on fixed incomes, who reside in developing neighborhoods and whose property taxes are increasing as a result, have a greater opportunity to remain in their homes. The Group was also charged with reviewing the City's Tax Abatement Program.⁶ The Group is staffed by the Department of City Planning and has been meeting monthly.⁷

LWV Positions

LWVUS Principles - Government should maintain an equitable and flexible system of taxation

LWV Ohio Position - Support taxation that is fair and equitable, provides adequate resources for government programs while allowing flexibility for financing future program changes, is understandable to the taxpayer and encourages compliance, and is easy to administer.

Discussion Questions

1. What effect do Cincinnati tax abatements have on your neighborhood? How do Cincinnati tax abatements affect residents of other Hamilton County jurisdictions?
2. The major argument in favor of tax abatements is that developments wouldn't happen at all without the abatement. In today's economy in Cincinnati, how important do you think tax abatements are to commercial development? To construction of new single family homes?
3. If you were developing a tax abatement policy for today, what would you include?
What would you exclude?
What types of developments would qualify?
What residential property would qualify?
Would you distinguish among neighborhoods or homeowner income?

⁶ City website, includes links to references on tax abatements, <https://www.cincinnati-oh.gov/planning/planning-projects-and-studies/property-tax-working-group/>

⁷ <https://www.wcpo.com/news/transportation-development/move-up-cincinnati/concern-over-cincinnati-tax-abatement-policy-could-result-in-big-changes-for-taxpayers-developers>

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