Introduction

This Report responds to Council Motion 20190038 passed by City Council on 03 January 2019.

> **MOTION**, submitted by Councilmembers Landsman, Dennard and Young, in the interest of updating our development subsidies and incentives programs in a way that continues to attract investments in our city while also better supporting our residents and neighborhoods and to ensure such an update is done collaboratively with the Administration, our communities, developers and residents. WE MOVE first for a report from the Administration within 60 days detailing the current incentive policies and programs as well as ways in which our efforts can be updated to include priorities such as the availability of and income definitions associated with affordable housing (and protecting against displacement), local job creation and incentivizing livable wage jobs, minority and local, small business inclusion, investing in disinvested neighborhoods and community engagement. This report should include specific and qualitative options, such as ways to quantify levels of achievement in these priority areas and suggested levels of development subsidies of varying kinds and categories best linked to the particular levels of achievement in each priority area. With several options or frameworks, we will need to engage key stakeholders, from residents to community leaders to developers, to ensure we put forward the best possible set of policies for our city. The revision of our tax abatement program last year created incentives for affordable housing and neighborhood projects. We hope this effort builds on these changes and provides a new reliable framework for ongoing (and more inclusive) investments in our city.

The above topics, in addition to subsequent conversations and requests from Councilmember Landsman related to balancing development, require an unusually voluminous report to effectively respond to the motion. As such, this report is arranged into sections.

Part A: Economic Review
Part B: Trend Data
Part C: State of Development
Part D: Current Programs and Tools
Part E: Council Request Part
F: Related Research
Part G: Recommendations
Part H: Appendix

First, the Administration provides data regarding Cincinnati's recent economic position, as well as the City's economic development efforts. This information creates a backdrop for the current set of policies and programs utilized by the Administration, and includes context about our economic health, supportive data, and micro and macroeconomic indicators.

Next, we identify historic trends to define the topics in the motion and evaluate Cincinnati on the identified development topics.

Informing the policy environment of the local real estate sector requires an explanation of the actors and forces involved in commercial real estate (CRE) in Cincinnati. Additional context is provided regarding the City Administration's role in the CRE industry, and the market and economic conditions that affect our day-to-day work.

Next, we provide a review of the City programs and selected research to comprehensively inform City Council and the public.

Lastly, we conclude with policy recommendations, within the context and limitations of the presented information, existing laws, and City ordinances for achieving the goals outlined in the motion.

The City Administration has intentionally pursued a growth strategy in the face of decades of population loss and disinvestment. This history underscores our critical need to drive repopulation and reinvestment of private dollars into our City's built environment. The City does not directly build homes, construct offices, create new businesses, or create new private jobs. Economic growth within the City is dependent on private actors making risk assessments that result in decisions to invest in real property improvement and job creation.

PART A: ECONOMIC REVIEW

Economic Conditions

The City of Cincinnati experienced steady job declines in years 2001 through 2010, in part due to an acceleration caused by the great recession. When Cincinnati entered the recession in 2008, the City was already challenged to overcome 50 years of population loss and property disinvestment. Despite a slow national economic recovery after the 2008 market collapse, the recovery has been uneven, with indicators of economic health widely varying across geographies and industries.

In general, these long-forming trends present detrimental effects on neighborhoods and the municipal entity, including:

- Loss of economic and urban vibrancy and opportunity
- Declines in income tax receipts
- Slumping demand for real property
- Relative and real declines in property values
- Less favorable municipal debt terms
- Increases in blight and correlated crime

- Increased public health and safety risk associated with property
- Stressed municipal resources expended on private property (code compliance, blight removal)
- Reduced economic opportunity
- Increased need for supportive services associated with joblessness, wage stagnation, etc.

Following the most recent recession, the City initiated major engagement efforts to develop a new comprehensive plan: Plan Cincinnati. In its final form, Plan Cincinnati produced five primary initiative areas deemed critical to reaching the collective vision of the City, as well as specific goals to demonstrate and guide progress. While overlap exists between initiative areas, DCED's work is most directly related to fulfilling the Compete initiative, identified as: "Be the pivotal economic force of the region." Broadly, this would be advanced by efforts to reach three specific goals:

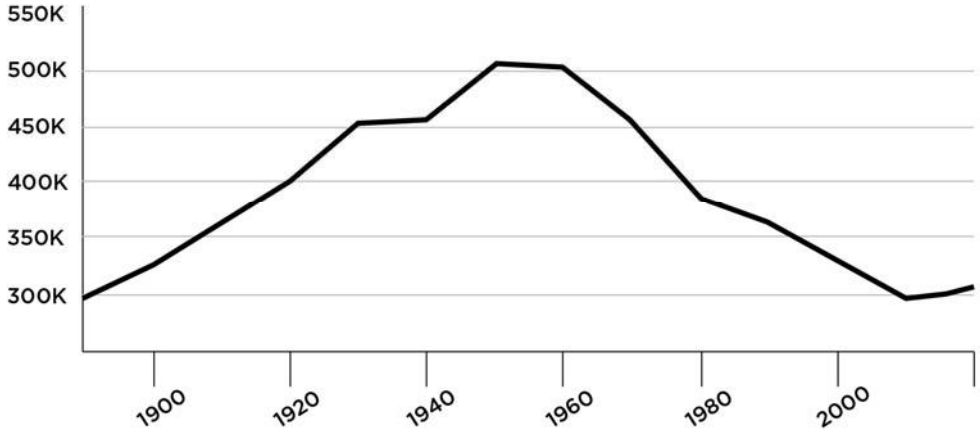
(1) Foster a climate conducive to growth, investment, stability, and opportunity;
(2) Cultivate our position as the most vibrant and healthiest part of our region; (3) Become nationally and internationally recognized as a vibrant and unique city.

Within and outside of Plan Cincinnati, the City Administration seeks to reverse these negative trends and counter the effects of disinvestment in our neighborhoods through the following activities:

- Facilitating local business opportunity, thereby reducing barriers to investment
- Retaining and creating local jobs, including "growing our own" by focusing on retention, expansion and relocation of existing businesses
- Recognizing that our best competitive asset is our built environment
- Pursuing new private capital investments
- Highly leveraging "but for" City incentive tools
- Minimizing impact to City capital and general fund budgets
- Building a streamlined and cohesive development process

Population

Cincinnati's population peaked in 1950. Since that peak, the City has approximately 40% fewer residents. Only very recently has data indicated that our population may be beginning to stabilize. Until the 2020 Census is completed and the results are released, the Administration will not have conclusive data to support this perception.



Source: United States Census Bureau

As recent City budget processes have demonstrated, the City has increasingly limited financial resources. With the City Manager focused on important City services, attracting private investment is the most realistic and attainable path toward addressing blight, restoring vibrancy, and increasing opportunity.

Given our history of disinvestment, investment is not a given. Investment cannot be assumed to be part of a "new normal." In DCED's experience, every decision involving private capital is made in a competitive environment. Investors of all types and sizes have broad and easily accessible alternative options, including low-risk and moderate-return investment vehicles such as the Bond Market, as well as higher risk investments like stocks and real estate.

Within the real estate investment markets, Cincinnati competes for capital against lower risk and higher return environments (for example, Nashville). Time and uncertainty in the Cincinnati development market are formidable barriers to successfully winning these investment dollars and increasing our population.

Investment and Job Creation Forecasting

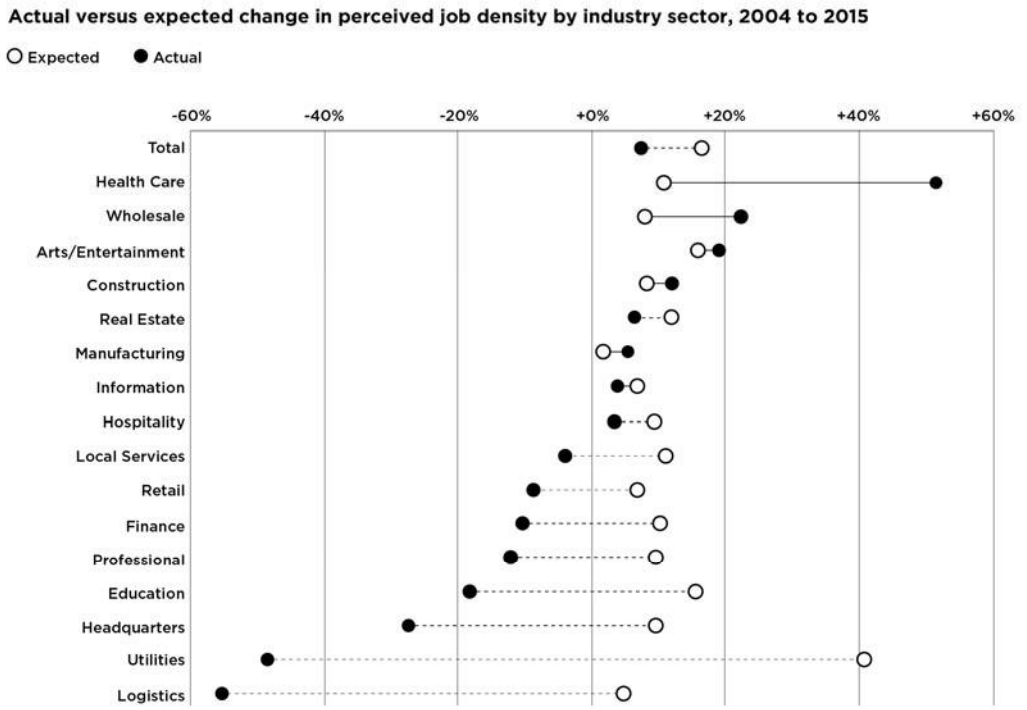
Current economic conditions can best be described as uncertain. Real GDP growth forecasts from the International Monetary Fund point to a deceleration in growth in all regions, including China and emerging Asia. In the latest forecast, Deloitte economists predict a 25 percent probability of a recession in the United States in 2019. In this scenario, tariffs and dilution of the stimulus effect could weaken the US economic growth in late 2019 or early 2020. These factors, among others, suggest that a global boom in real estate investment may be ending.

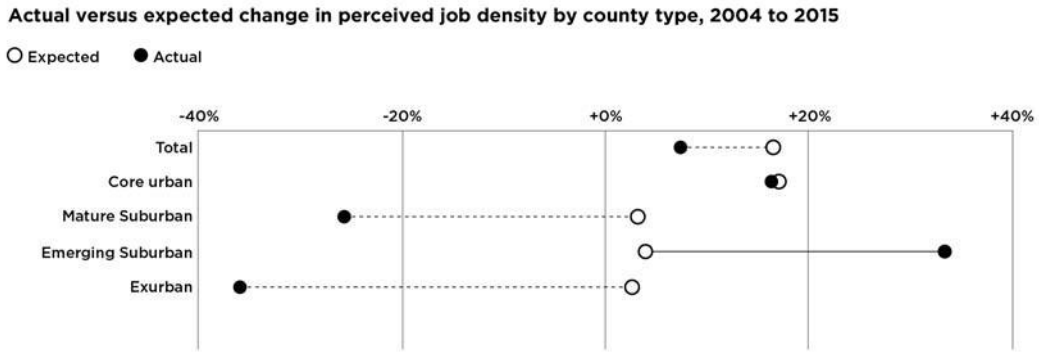
Cincinnati has been a local participant in a global real estate boom, fueled by relatively low prices of debt and decreased transactional friction. Cincinnati's recent development momentum is in part a benefactor of these trends. The Administration seeks to ensure Cincinnati is an attractive market for capital investment even after an inevitable cooldown in lending and investment volume.

A recent 2019 report by the Brookings Institution focuses on job concentration and underlines a variety of themes expressed by DCED. Regarding job creation and density, we are under-competing with our national and regional counterparts. In this context, the term "job density" measures local concentration of jobs, allowing for better comparison of suburban locations to their urban core counterparts. It also compares similar geographies, such as different urban core locations. Cincinnati's job growth and density has been above expectations in fewer than half of the important job growth industries. On a regional level, our peer cities have outperformed Cincinnati as measured by changes in job density, or how compactly our jobs are concentrated.

Cincinnati was one of 48 large metropolitan areas in the United States to post an increase in job density from 2004-2015. However, Cincinnati was near the bottom of this group, with Columbus, Indianapolis, Charlotte, and Nashville all heavily outpacing Cincinnati. In Charlotte, job density

increased by 44%. For Cincinnati, this measure was only 8%. Inside of these data, Cincinnati experienced the vast majority of our growth in only a few industries, namely health care.





Source: Brookings Institution, Bass Center for Transformative Placemaking.

In addition to competing for job creation and growth with other metropolitan regions and cities in the United States, Cincinnati is also competing for these jobs within our own metropolitan region. The Brookings Institution data show that while our core urban central city has increased in job density, our emerging suburban areas outside of the city are vastly outpacing the city center. Reducing and removing barriers to private investment can help Cincinnati better capture these investment and job creation dollars and help us compete in regional job location decisions.

These data underscore the difference between perception driven by news and social media – principally that the City is "winning" at growth – and the factual reality – that Cincinnati lags our peer cities in development momentum and operates within a very competitive market for job attraction and retention.

PART B: TREND DATA

Each tool or program made available to DCED is utilized to deliver benefit to the City as a whole. The Department of Community and Economic Development (DCED) actively manages or delivers more than 30 unique incentive tools and programs, each with its own goals, target audience, and program limitations that are established by State or Federal Law or local policy.

Broadly, State authorized incentives are targeted to achieve outcomes in local real estate development and job creation and are not specifically structured to alleviate other socioeconomic factors such as concentrated poverty, homelessness, evictions, or other local challenges and hardships. Rather, such factors are addressed through local direct funding to programs, or by funding programs with the City's Federal entitlement allocation from The U.S. Department of Housing and Urban Development (HUD). Approximately 85% of the City's entitlement funds are statutorily directed to assist low- and moderate-income individuals and families with housing and / or public service needs.

DCED deploys these tools to achieve progress in areas vital to the City's health. In this report, analysis is limited to a few key areas that influence our economy and resident experience. The following trends provide context to Council about how these issues are affecting Cincinnati as compared to our peer cities.

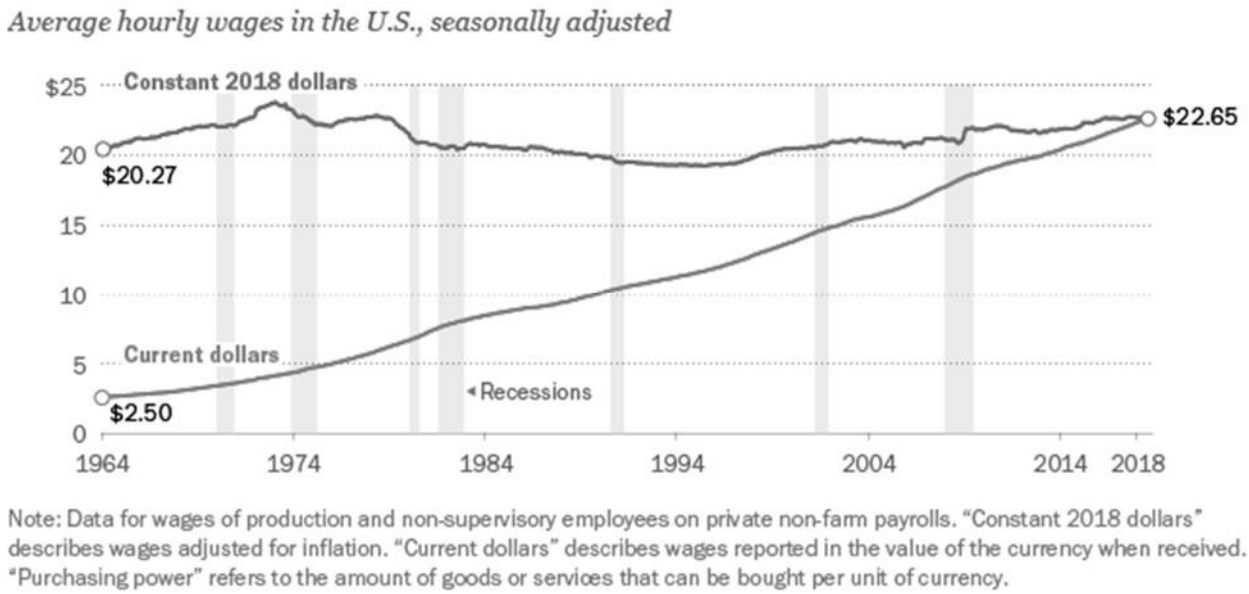
National Trend: Individual Wage Stagnation

An important component of housing affordability starts with the most basic tenet of economic security: income. Wage stagnation is a contributing factor toward growing challenges with housing affordability, especially as it pertains to the generally accepted definition, established by HUD and utilized by DCED, for affordable housing – spending no more than 30% of household income on housing, inclusive of utilities. Persistent poverty and a lack of housing affordability are intertwined for many Cincinnatians.

Nationally, wage stagnation is a decades-long issue. Even in our nationally recovering economic environment, annual wage growth is rising only marginally faster than inflation. When compounded by decades of similarly slow or zero growth, the average American worker has less purchasing power and struggles to afford basic housing costs. The included chart, produced by the Pew Research Center, displays historic information on average wages.

Locally, Council has taken action regarding living wages and prevailing wages. In 2016, Council passed an Ordinance requiring the payment of State Prevailing Wages on Development projects receiving more than $3 million of City incentive. In the same year, Council passed an Ordinance requiring full-time City employees and City service contractors to pay a living wage to employees of a minimum of $15 per hour. In addition to these, in 2016 Council passed a Wage Enforcement Ordinance holding developers liable to any wage theft or payroll fraud committed by a contractor or subcontractor as part of their development.

Lastly, for projects receiving payroll tax incentives, including a Job Creation Tax Credit (JCTC), Council passed a motion stipulating that no job paying less than a living wage (approximately $15 an hour) would be eligible for a City payroll tax incentive. Taken together, these new Ordinances leverage City actions and incentives to increase wages at the local level.



Source: US. Bureau of Labor Statistics via Pew Research Center

Housing affordability is not a local issue or regional issue. A 2018 study by the National Low Income Housing Coalition found that a full-time working renter earning minimum wage cannot afford a two-bedroom apartment in a single county in the United States. In only 22 out of 3,000 counties nationally could the same worker afford a one-bedroom apartment at fair market rental rates. The Urban Land Institute's Terwilliger Center for Housing reports that "nearly 10 million low- and moderate-income working households—one in four working renters and 16 percent of working homeowners—pay more than half their income for housing. High housing costs are not only detrimental for families: they are also bad for business and local competitiveness."

Understanding the macroeconomic scope of housing affordability is crucial for developing policies that are connected to reality and implementable at the local – and increasingly resourceconstrained – level.

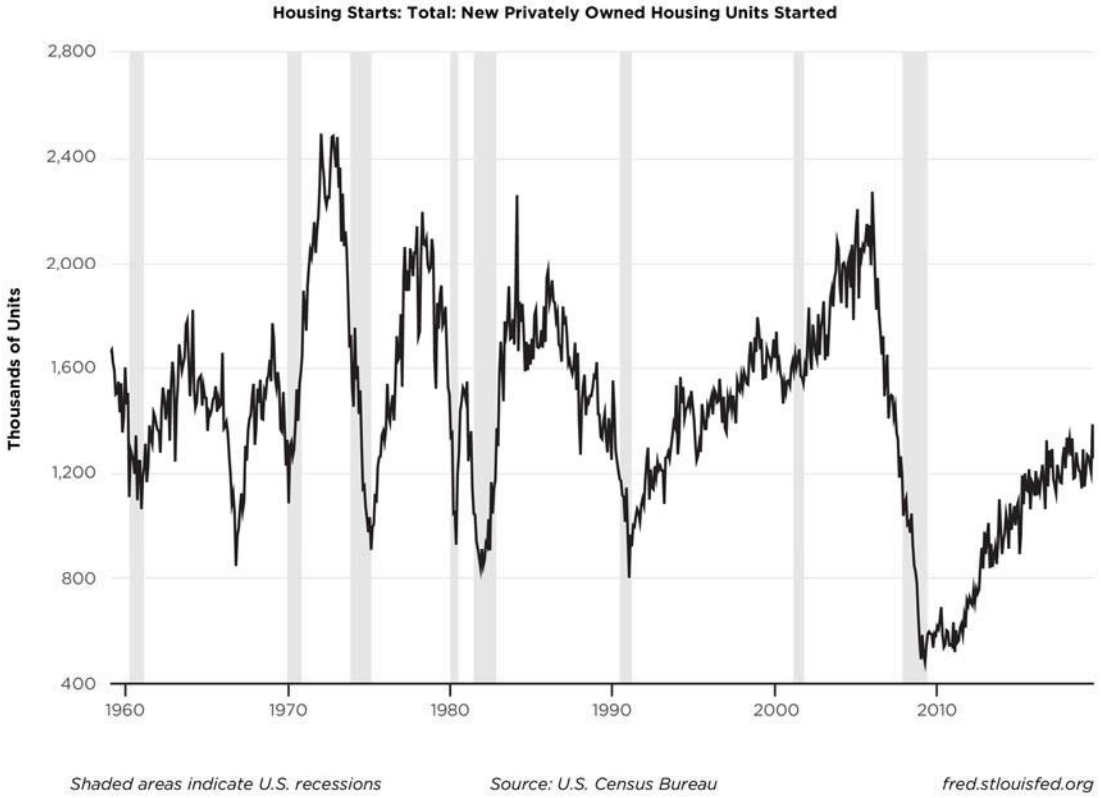
National Trend: Supply Shortage Drives Prices Up

The Great Recession profoundly restructured the home construction and real estate development industries across the United States. First, the recession caused a drop-off in construction of new housing. By the time the economy began to recover, this pause in home construction had depressed supply levels substantially as population growth did not similarly pause.

Second, the length of the recession caused many home construction professionals to leave the industry, either through retirement, retraining, or alternative employment. The long pause in the industry also changed the perception for many about the stability of the construction trade, making recruitment of new professionals more difficult. The now-healthy economy has significantly fewer home construction professionals than pre-recession. This lack of an available workforce places upward pressure on homebuilding wages and time-to market, further increasing prices.

The Joint Center for Housing Studies of Harvard University released an assessment of the nation's housing market, which concludes "that housing production still falls short of what is needed, which is keeping pressure on house prices and rents and eroding affordability."

When new home construction cannot keep up with demand and population growth, individual purchasers, and especially those with more financial means, continue to bid faster and higher for properties. The report further states that "the tight supply of homes for sale is keeping the pressure on prices in much of the country, while high land prices, labor shortages, and restrictive land use policies limit development of moderate-cost housing."



Source: Federal Reserve Bank of St. Louis, First American Calculations, July 2018

Supplies of existing single-family homes for sale remain extremely tight. In fact, both key measures of inventories are at their lowest levels since the National Association of Realtors began its tracking

in 1982. This lack of homes is referred to as the "supply gap." The supply gap is present in both the multi-family and the single-family markets. Up For Growth National Coalition reports on the severity of this home shortage. Between the year 2000 and 2015, the number of housing units in the United States was underproduced by 7.3 million.

In addition to the negative effects of the recession on the homebuilding and construction industries, there are existing shortages based on systemic land use and zoning policy environments. First time homebuyers in the single-family market and city dwellers looking for dense multi-family units are both searching for unit types subject to shortage from intense land use and zoning restrictions. Most recently, the City of Minneapolis has received national coverage for their efforts to reverse these trends by liberalizing their single-family zoning regulations to encourage more dense development and improve access to previously inaccessible housing markets.

Overall, the residential housing market in the United States is very complex. As in any market, supply and demand play a primary role in affecting price and productivity. In addition, housing markets, wildly variant by geographic region, are also affected by demographic trends, cultural preferences, real estate investor expectations, monetary policy set by the Federal Reserve, and local regulatory and land use frameworks.

The 2018 Harvard report lists four primary impediments to increasing the rate of home construction. These barriers are familiar to DCED and the development community, though perhaps less newsworthy for the general public. For Cincinnati to begin addressing the supply side of housing production and affordability, policy makers may consider which of the four issues are best addressed at the municipal level:

- Shortage of skilled workforce
- Increasing costs of building materials
- Decreasing availability of land
- Local zoning and land use regulations

National Trend: Barriers to Mortgage Credit

In Cincinnati, each neighborhood has unique assets that drive demand for homeownership such as neighborhood schools, business districts, walkability, transit, and quality of life factors. Regardless of location, interested buyers must secure a mortgage loan prior to purchasing a home. The ability to secure this funding from lenders is based factors such as an individual's credit history (generally reported as a FICO score), gross income compared to debts owed (Debt-to-Income ratio, or DTI), the purchase price of the property relative to an appraised value of the property (loan to value ratio, or LTV), and contribution of a down payment.

County-level data available through the federal Home Mortgage Disclosure Act (HMDA) show that Hamilton County's home purchase applicants increased among White, Asian, and Hispanic populations, but decreased for Black/African American applicants between 2007 and 2017. Mortgage approval rates for the share of Black/African American applicants was 88% in 2017, which is an increase from 79% reported in 2007. Despite this increase, the rate of Black/African American

mortgage approval is still lagging the 93-96% approval rates reported for White, Asian, and Hispanic residents.

The reasons for lender denying mortgage credit to Hamilton County borrowers, as reported by the HMDA by race and ethnicity, are as follows:

	Totals		Shares	
Reasons for Loan Denials by Race/Ethnicity	**2007**	**2017**	**2007**	**2017**
Black				
Credit History	133	52	30%	27%
Debt Ratio	100	61	23%	31%
Employment History	7	4	2%	2%
Collateral	48	30	11%	15%
Credit Application Incomplete	61	13	14%	7%
Insufficient Cash	12	10	3%	5%
Asian				
Credit History	4	0	27%	0%
Debt Ratio	3	7	20%	44%
Employment History	1	0	7%	0%
Collateral	1	3	7%	19%
Credit Application Incomplete	1	3	7%	19%
Insufficient Cash	2	0	13%	0%
White				
Credit History	205	102	29%	20%
Debt Ratio	132	108	18%	21%
Employment History	19	23	3%	4%
Collateral	91	126	13%	24%
Credit Application Incomplete	95	95	13%	18%
Insufficient Cash	21	20	3%	4%
Hispanic/Latinx				
Credit History	3	2	19%	8%
Debt Ratio	5	5	31%	21%
Employment History	0	2	0%	8%
Collateral	1	7	6%	29%
Credit Application Incomplete	2	3	13%	13%

Insufficient Cash	1	2	6%	8%

Improving mortgage lending rates, especially where disparities exist, will require lenders to reconsider risks of lending to individuals with high debt ratios in light of the wage stagnation and housing market competition factors previously identified.

The Federal Housing Administration (FHA) is currently evaluating their willingness to endorse mortgage loans with higher than desirable DTI ratios, as indicated in the FHA Annual Report to Congress. While FHA has previously endorsed loans with high DTI based on "compensating factors", the potential agency shift away from such practice is causing concern and ongoing research into the effects of debt burden on mortgage lending evaluations. One such analysis by the Urban Institute, suggests that higher DTIs do not always have higher delinquency rates, while a FICO score serves as a much stronger predictor of default.

Should FHA change its underwriting practices to restrict lending to individuals within a specified band of DTI, it will become even more difficult for certain borrowers, namely those with lower incomes or higher debt burdens (including student loans), to secure a mortgage loan.

Local Trend: Affordability Measured by Cost of Living and Discretionary Income

By most measures, compared to our peer cities, Cincinnati is a comparatively affordable place to live. One such indicator analyzes regional price parities by measuring the difference in prices of goods and services across metropolitan areas. This indicator is expressed as a percentage of the overall national price level for each year, so scores higher than 100 represent metropolitan prices higher than the national average. According to the St. Louis Federal Reserve Bank's Regional Price Parities Index, Cincinnati scored 90.0 in 2017. Cincinnati's metro area has a low cost of living relative to peer cities and the national average.

Community	Price Index Score
Minneapolis – St. Paul	102.2
Austin	100.5
Raleigh	96.2
Pittsburgh	94.0
Charlotte	93.8
Columbus	92.3
Indianapolis	92.0
St. Louis	91.4
Cleveland	90.2
Cincinnati	**90.0**

Source: Federal Reserve Bank of St. Louis Economic Data

When comparing states, Ohio ranks number three among all fifty states for available amount of discretionary income, and Cincinnati ranks number eight for discretionary income, behind Columbus, but ahead of Cleveland. These data were recently reported in a 2017 report by Trove Technologies that utilized data from the Bureau of Labor Statistics, the Tax Foundation and the Council for Community and Economic Research.

While Cincinnati is an affordable metropolitan location, the current tax and policy environment is not favorable to low-income working individuals and families. Many families experience sharply higher tax rates for very small increases in income. This experience, sometimes referred to as a "cliff" effect, is detrimental and punitive to working people. The cliff effect not only affects housing policy, but other public assistance programs such as the Supplemental Nutrition Assistance Program (SNAP) program, compounding uncertainty for low-income families.

Local Trend: Affordability Measured by Cost of Rental Housing

The multi-family market in Cincinnati is characterized by comparatively low unit rental rates. Demand here has outpaced supply, resulting in slowly rising average rents. However, as indicated in the table below, these rental rates are still low compared to other peer cities. The table below reflects Cincinnati's median rent price and the percentage of rental stock available at less than $600 per month, as compared with peer cities and surrounding submarket communities.

Community	Median Rental Rate	% Rental Units Below $600
Blue Ash, Ohio	$1,079	2.3%
Minneapolis	$941	n/a
Columbus	$889	n/a
Pittsburgh	$887	n/a
Indianapolis	$840	n/a
St. Louis	$780	n/a
Louisville	$779	n/a
Mason, Ohio	$736	4.5%
Cincinnati, Ohio	**$684**	**37%**
Newport, Kentucky	$678	36.8%
Cleveland	$678	n/a
Covington, Kentucky	$670	41.2%

Source: 2017 American Community Survey Estimates. N/A – not readily available

Rental rates and rate stability are critical indicators that lead the private market to invest and create more units. Private market rate construction is only financeable with rents that are projected to pay debt service and provide sufficient return for the builder's equity investment. Referring to the table

above, this means a private developer could sensibly choose to undertake a new project in Mason or Indianapolis rather than Cincinnati, as the local rents in those markets would more readily pay the cost of construction and operations, yielding better financing terms and less project risk.

Nonetheless, despite lower-than-average rental and homeownership costs, Cincinnati's comparatively lower incomes results in approximately one fifth (21.3%) of Cincinnati residents being moderately rent burdened (they pay more than 30% of their monthly income in rent, but less than 50%), and a still larger share of renters (24.7%) are severely rent burdened (paying 50% or more of their income in rent each month).

The Department of Community and Economic Development has prepared a 2019 Affordable Housing Primer. This document, available at www.ChooseCincy.com, presents facts, data, figures, and definitions for terms involved in affordable housing discussions. In order to remain consistent with DCED practices and policies, many of those definitions are utilized throughout this report.

Local Trend: Affordability Measured by Cost of Housing Ownership

In May 2019, according to the Cleveland Federal Reserve, the median value of a home in the Cincinnati metropolitan area was $170,100, while the nationwide median home value was $226,800. Further, according to a recent analysis of local data by Penn Praxis, Cincinnati's median cost of ownership is $1,068 per month. This is slightly higher for homeowners still paying off a mortgage ($1,257), but much lower for those who own their home free and clear ($523). The cost of ownership includes mortgage payments, real estate taxes, fire/hazard/flood insurance, utilities, fuels, and monthly condominium fees.

Community	Median Cost of Ownership (with a mortgage)
Mason, Ohio	$1,698
Minneapolis	$1,623
Blue Ash, Ohio	$1,615
Columbus, Ohio	$1,293
Cincinnati, Ohio	$1,257
St. Louis	$1,214
Louisville	$1,214
Newport, Kentucky	$1,181
Pittsburgh	$1,130
Indianapolis	$1,124
Covington, Kentucky	$1,051
Cleveland	$990

Source: 2017 American Community Survey Estimates

As may be expected, the data show that homeowners are better off than renters when it comes to cost burden. A HUD report of 2019 housing market conditions indicates that the affordability of renting a home declined, while, in contrast, the affordability of purchasing a home rose. The National Association of Realtors Composite Affordability Index, which measures the ability of the median-income family to purchase a median-priced home under current underwriting standards, is also still above its historic norm.

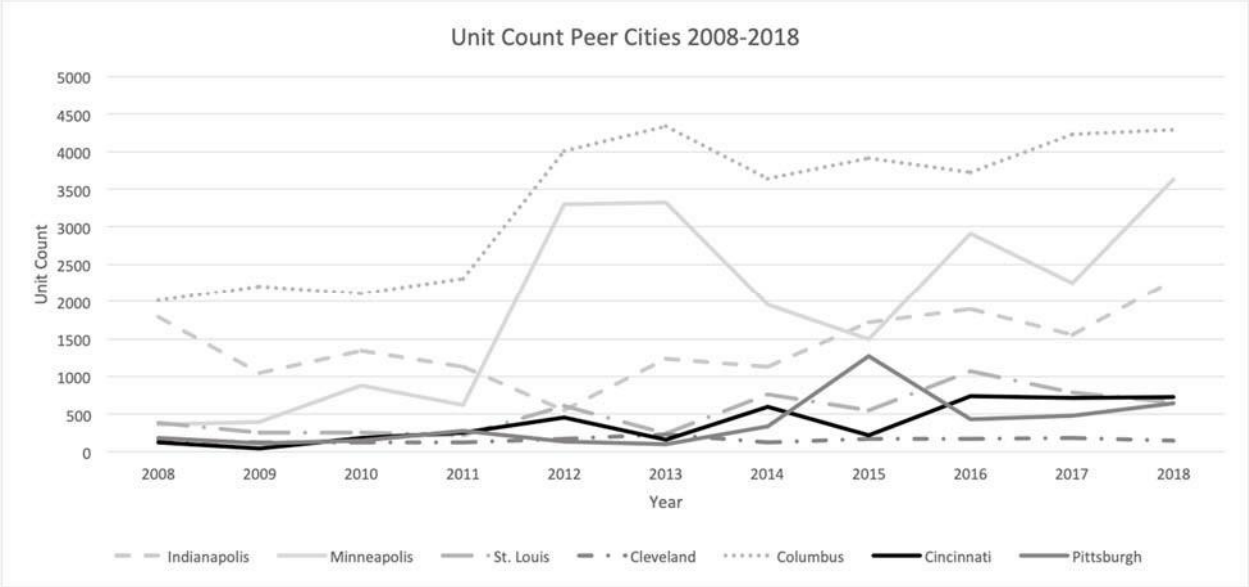
Despite trends suggesting homeownership is becoming more affordable, the HUD report reveals the US homeownership rate dropped for the first time in two years, and attributes this to low inventories of homes for sale, slower income growth relative to house prices, higher mortgage rates, and restrictive credit markets that have affected homeownership.

Similarly, in July 2019, Enterprise Community Partners released the latest update to its Housing Tenure Trends report, which describes the homeowner and renter rates of U.S. households as of the second quarter of 2019. These data show the share of households that owned their home declined again for the second straight quarter, to a seasonally-adjusted rate of 64.2 percent. The renter rate, meanwhile, increased to 35.8 percent, its highest level since the end of 2017. Both changes represent further departures from long-run trends in owning and renting homes and a reversal from a two-year period of rising homeownership and falling rentership rates.

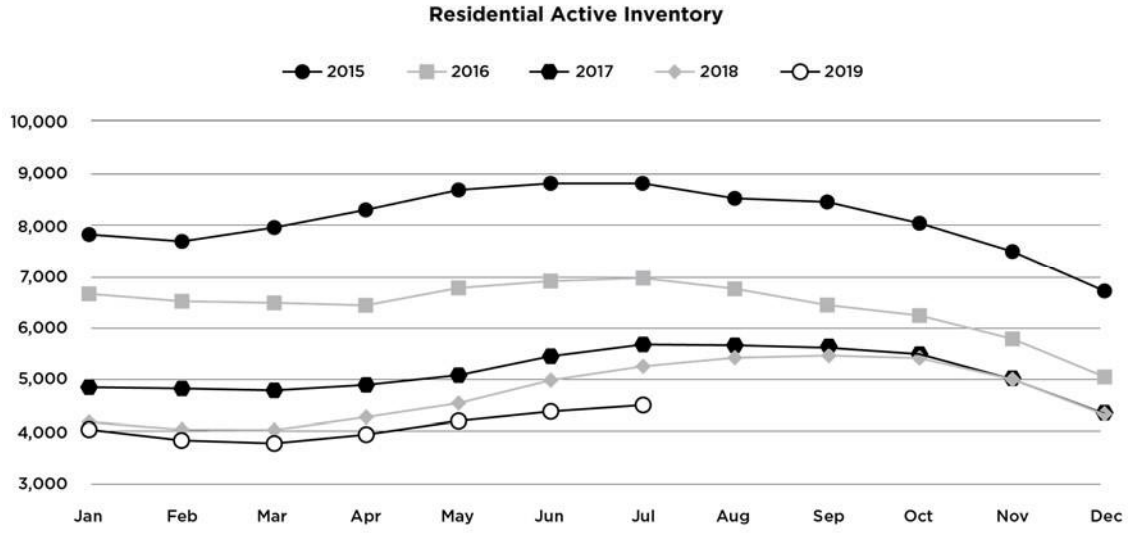
Local Trend: Slow Pace of Development

Building activity in Cincinnati is slower here than in many competing and peer locations.

Despite the development that Cincinnati has seen over the past several years, Cincinnati ranks near the bottom of comparative data when plotted with our peer cities. In particular, there are large discrepancies between the number of new units constructed in Cincinnati as compared to regional competitors of Indianapolis and Columbus – two cities within a two-hour drive of Cincinnati. Here in Cincinnati, we have made much progress to elevate our momentum and arrive at our current competitive position in the regional marketplace. However, to sustainably secure our competitive position for the long run, we need to continue to be aggressive with population growth.



Source: 2018 Building permit database https://socds.huduser.gov/permits



Source: 2019 Multiple Listing Services, Cincinnati

A recent well-reviewed economic study supports these perceptions of supply and demand in the housing market. The study published by the UpJohn Institute for Employment Research in 2019 specifically evaluates the impacts of newly added market rate housing opening up affordable housing down the chain. Unlike previous studies, it uses longitudinal household change of address data and finds that for every 100 new units of market rate housing, approximately 60 below-median income equivalent units become or remain available.

Local Trend: Change in Property Values

As part of Cincinnati's recovery from the Great Recession, property values have risen across the City. Higher property tax obligations can be attributed to two primary factors.

First, property valuations in the City of Cincinnati are set by the Hamilton County Auditor. Over the previous five years and since the last recession, changes in property tax valuations by the County Auditor had been slowly growing at around one percent per year. However, in 2017, those valuations jumped approximately 6% in one year. Neither commercial nor residential property values have fully recovered from the recession. Both total values remain below their 2009 totals.

Second, new property tax levies passed by City voters have created new tax obligations on homeowners, renters, and commercial property owners. Recent significant increases include the 2016 Preschool Promise levy equal to 7.93 mills and the 2018 library levy which added another 1.0 mills to the existing program. These added new tax obligations of approximately $278 and $35 respectively per every $100,000 of assessed value. Overall, effective residential and commercial millage rates have continued to increase. Both values were 23% higher in 2017, prior to the library levy. Below are property tax rates as included in the City's 2018 Comprehensive Annual Financial Report (CAFR).

City of Cincinnati Comprehensive Annual Financial Report
Property Tax Rates - Direct & Overlapping Governments
Last Ten Fiscal Periods

		City Levy						
Assessed Year	Collection Year	General Fund	Debt Service	School Levy	County Levy	Total Levy	Residential Effective Millage	Commercial Effective Millage
2008	2009	4.53	5.36	67.95	20.63	98.47	65.70	76.08
2009	2010	4.46	5.36	67.87	21.48	99.17	66.67	77.44
2010	2011	4.60	5.47	68.54	21.48	100.09	67.82	79.88
2011	2012	4.60	5.90	70.76	21.06	102.32	73.67	84.72
2012	2013	4.60	6.25	71.34	21.06	103.25	74.81	86.34
2013	2014	5.70	6.50	71.49	21.06	104.75	76.51	88.19
2014	2015	5.60	6.50	70.65	20.88	103.63	75.20	87.94
2015	2016	5.60	6.50	70.15	20.88	103.13	74.80	87.64
2016	2017	5.54	6.50	77.91	20.88	110.83	82.72	95.40
2017	2018	5.54	6.50	77.23	21.19	110.46	80.63	93.48

Note: Rates are expressed as dollars of tax per thousand dollars of taxable valuation.

Source: Hamilton County Auditor's Office

With regard to the City's direct actions, the City share of property tax obligation continues to fall to lower levels.

PART C: STATE OF DEVELOPMENT

Understanding current real estate development incentives necessitates description of the day-today actors and forces involved in commercial real estate in Cincinnati. In this section, we will discuss:

- What is Commercial Real Estate?
- Lending and Financing
- Increased Costs of Construction
- Market Demand
- Evaluating a Project Financing Gap
- How Does Affordable Housing Work?
- Policy and Political Uncertainty
- DCED's Role

What is Commercial Real Estate?

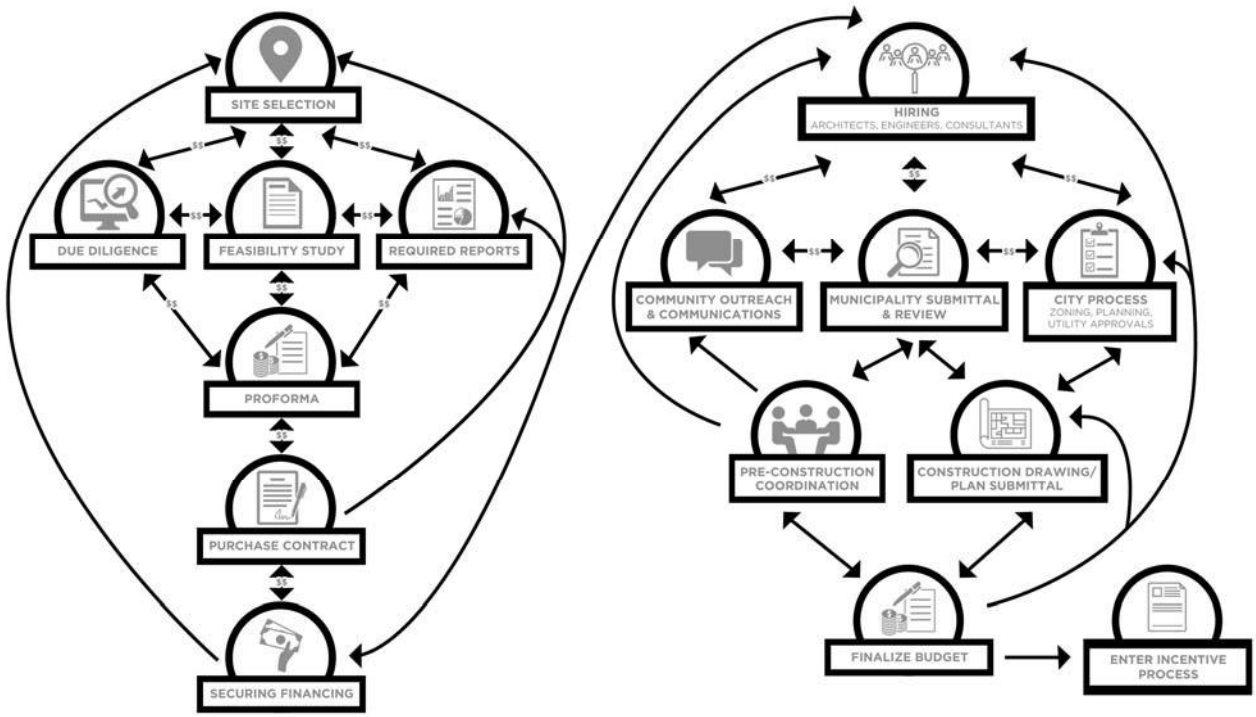
Commercial Real Estate is an industry term describing property intended to generate financial return. DCED includes a variety of different building typologies in this definition, including office buildings, industrial buildings, hotels, multi-family residential buildings, parking garages, and other properties.

City Council, the Administration, and members of the public often refer broadly to the "developers" of new construction or renovation projects. In practice, there are a variety of different players and actors in the CRE industry, each with specific expertise, roles, and needs. These include:

- Owners
- Developers
- Investors (individuals, Real Estate Investment Trusts (REITs), Pension Plans Insurance companies)
- Lenders (Banks, etc.)
- Tax Credit Agencies (City, State Historic Preservation Office (SHPO), HUD, etc.)
- Construction and Trades
- Management

Developers are the individuals coordinating most activities of a development project. This includes bundling the resources of owners, investors, and lenders, hiring construction firms and trades to complete a project, and finally procuring management of the real estate asset to collect rent and ensure expenses and debts are repaid. Constraints and requirements to getting a project underway are presented by each of the actors involved. This process – controlling and juggling the needs of all parties – involves a significant level of risk and uncertainty. At each stage of the property development pipeline the types of risk vary, but the ultimate risk is that a project doesn't move forward, and all investment and expense to-date is lost.

Projects take years of work and expense in planning and pre-development to bring to fruition. Complex funding mechanisms and local regulations further dictate what is legally permissible within each site. Projects involve high risk and financial burden in the early stages of planning, design, and diligence. An illustration of this pre-development phase is provided, below:



Source: DCED

These many risks inherent to the CRE business are accepted in exchange for the future projected ability to generate income. Often, it takes years after construction completion to achieve positive cash flow. A variety of uncontrollable market factors affect this cash flow, including movement of rental rates up and down, increasing construction costs, delays in project completion, shifting interest rates, other new competing projects.

Private investors and developers evaluate these risks balanced against market demand to assess whether new commercial real estate is feasible. While these elements are varied, the most critical is the availability of capital from lenders and investors. Without available capital, projects are not possible.

Lending and Financing

There are fundamental differences between developers, lenders, and investors. Developers identify and study market needs and acquire and improve real property to meet those demands. This effort must ultimately produce income, which is the return on the expenditure of their resources.

Unlike lower-risk alternative investments (e.g. bonds), there is no guarantee that any asset will produce income. In this way the developer is considered “at risk”. The developer must find and secure financing for each deal uniquely, primarily made up of bank loans for less than the full cost of the project. Developers typically must secure the remaining needed funds through investors or equity, and guarantee rates of return on these funds equivalent to the risk being assumed.

Lenders, such as banks, are risk averse. They provide the bulk of financing for most projects, typically lending 50% - 80% of the necessary capital for a project. When lenders evaluate projects, they are considering various questions: What other similar projects have been financed in the area? How have those projects performed? How should the lender treat projects with novel or unproven components (earning top-of-market rental rates, no included parking, etc.)? Typically, for higherrisk projects, a lender would likely charge higher lending rates and provide a lower percentage of overall project cost, hedging against potential loss or failure.

A component of a lender reducing risk is to ensure that a project is not fully financed by the lending institution. Instead, a Developer will be asked to contribute equity. In addition, the Developer may choose to further diversify project financing by working with Investors.

Investors bring capital to the table at a higher level of risk for a chance to earn higher yields. In return, Investors typically demand more control over how a project is structured. There are sometimes conflicting needs to balance between Lenders and Investors on any given project. Unlike a Lender, an Investor may want more involvement in the day-to-day operation and performance of the project.

Investors look at projects very differently than banks or developers. Investors evaluate investment decisions by weighing other investment vehicles. These might include much lower-risk options, such as the bond markets or index funds. They will also include similar risk markets with much higher levels of return.

The Cincinnati real estate investment market is not comparatively strong enough to automatically attract private investment. Many other real estate markets across the United States have the same risks with higher likely returns. Instead, our investment opportunities are marginally better than competing investment vehicles, for example, a few percentage points above bond or index stock returns for a large amount of additional risk.

In healthy real estate markets, developers regularly evaluate a market, find a niche, and complete developments. In non, or less healthy, real estate markets, a variety of organizations and entities are necessary for stabilizing the foundational market elements in ways that attract private capital. These include developers, investors, and lenders, but also not-for-profit lenders, neighborhood CDCs, quasi-municipal entities, not-for-profit developers, and the municipality. These public sources have their own inherent risks, including uncertainty of final approval and longer timelines.

Increased Cost of Construction

Every year the Urban Land Institute, in conjunction with PricewaterhouseCoopers, completes a comprehensive forecast report for the real estate industry. In 2019, construction costs were the principal real estate and development concern for ULI's Emerging Trends 2019 Survey of real estate industry professionals. The second highest cause for concern was the impact of increasingly high land costs, while housing cost and availability ranked third.

Increased materials costs are driven by a variety of factors. J.S. Held, a global construction consulting firm, expects materials costs to rise by 24% over the next 5 years. Additional pricing uncertainty exists

for contractors as tariff exemptions continue to expire and are not renewed, and as a result, costs are expected to continue increasing for steel, lumber, and other building materials. According to Rider Levett Bucknall's First Quarter 2019 North American Quarterly Construction Cost Report, construction costs in the United States rose 5.7% in 2018 alone.

Increasingly high labor costs also affect increasing costs of construction. Local representatives of J.S. Held state that there are 11% fewer construction employees than the previous peak. The labor shortage is impacted by factors such as a depleted supply of skilled laborers, loss of immigrant construction laborers following the financial crisis, an active construction market creating demand, and increases in major rebuilding efforts following weather-related disasters.

All these issues are interrelated and have very real local effects. Rising project costs can be attributed to more risk, more uncertainty, and in the end, higher rental rates necessary for paying back project debts. LISC Greater Cincinnati and the Community Building Institute, in the Housing Affordability in Hamilton County report from 2017, found that growth in the construction costs for residential units in Hamilton County has outpaced growth in median income. The average cost to build single- and two-family homes has risen by 31% since 2000 and increased by 50% for an apartment or condo in a multi-family building. As of 2015, it cost $255,000 to build a new single- or two-family home and over $93,000 to build a unit in a multi-family building.

Market Demand

Residential rental rates and commercial office rental rates are fundamental drivers for private investment. When the market cannot charge rental rates high enough to cover construction costs, a financing gap may require subsidy.

A major element of risk facing "supply-side" entities (developers, investors) is determining where changing markets are headed. Where does an aging or millennial population want to live and work in our metropolitan region? What type of office environment is preferred in each submarket? How will retail shopping preferences change over time, and what spaces should be built to accommodate that preference? Which external or industry-wide trends will impact future demand for residential, office, or retail space? While the City Council or Administration deals with these projects temporarily during an incentive approval or permit process, the developers, owners, investors, and lenders remain engaged with debt and equity over decades. Their understanding of risks and reaction to these trends is crucially important.

Specific to Cincinnati, the City has recognized high levels of reinvestment in selected neighborhoods, including the Central Business District and Over-the-Rhine. In portions of these neighborhoods, enough information exists to give more certainty to project investors. A few streets away, or in nearby neighborhoods, however, capital investment and debt is still considered very risky. Only a few years prior, Over-the-Rhine's real estate market was so unproven that only a wellfunded not-for-profit was willing to take the risk in acquisition and development. These projects are still seen as risky in the larger context of real estate development.

In Cincinnati, commercial office rents for Class A office space (the highest quality) average around $20.00 per square foot. These rates are typically not high enough to support new construction of office space. This puts Cincinnati at a competitive disadvantage with other cities where new office space is being built that can attract new, high-wage jobs. For reference, the same rate in Nashville is averaging approximately $30.00 per square foot.

Evaluating a Project Financing Gap

Residential and commercial development in Cincinnati is challenged by a financial gap between the cost of developing a project and the rent that is market-supportable for that project. Moreover, development in some neighborhoods is further challenged by speculative land pricing spurred by scarcity of development opportunities.

In order for development to proceed without any incentive, market-supportable rents need to rise to eliminate these financial gaps. In the short- and medium-term, incentives are necessary to catalyze development. Within the scope and purview of Council legislation, DCED looks to evaluate the size and distribution of incentives to ensure that the greatest impact is made with a limited level of resources to guarantee the development of product types that are attractive to a range of markets. Over time, as development continues and market rents shift, the fundamentals may support reduction or modification of incentives.

Generally, there are two forms of a project financing shortfall that prevent a market-rate project from moving forward. These are:

(1) An "Upfront" Capital Gap
(2) An Annual Operating Gap

An **Upfront Capital** Gap forms when a project costs more to develop than it will be worth once it has finished with construction. In the CRE industry, a standard measure of real estate value is a project's "capitalization rate". This rubric evaluates the Net Operating Income (rental income minus expenses) generated by a commercial project as compared to assumed market value. Commercial developers use the Capitalization rate to measure projected financial return across different geographies and typologies as a reference for assumed value.

A formula that is a staple in evaluating value of a development is the following:

$$\text{Value} = \frac{\text{Net Operating Income}}{\text{Capitalization Rate}}$$

If a building costs $100,000 to redevelop based purely on construction cost, but the value formula only equates to $80,000, an Upfront Capital Gap is present. Lenders see that risk and decline to support the project with debt. Project subsidy, such as a tax abatement, can help with an Upfront Capital Gap by reducing projected operating expenses, increasing NOI and subsequently increasing the value equation through the lens of a lender.

Example:

Project Construction Cost	$100,000
Annual taxes that can be abated	$ 1,000
NOI without abatement	$ 4,000
NOI with abatement	$ 5,000
Cap Rate	5%

Value without abatement: $4,000 / 5% = $ 80,000 (Upfront Capital Gap of $20,000) Value with abatement: $5,000 / 5% = $100,000 (Gap eliminated by abatement)

An **Annual Operating Gap** functions somewhat differently. Cincinnati property tax rates generally equate to one third of the total annual expenses for a commercial property. If annual income (rents, services, parking fees, etc.) minus annual expenses (operating expenses, property taxes, etc.) results in negative NOI, an Annual Operating Gap may exist. A project would not move forward with a negative operating income.

Example:

Annual taxes that can be abated	$3,000
Income	$9,000
Expenses without abatement	$9,000

NOI without abatement: $9,000 (Income) - $9,000 (Expenses) = $ 0
NOI with an abatement: $9,000 (Income) - $6,000 (Expenses) = $ 3,000

How Does Affordable Housing Work?

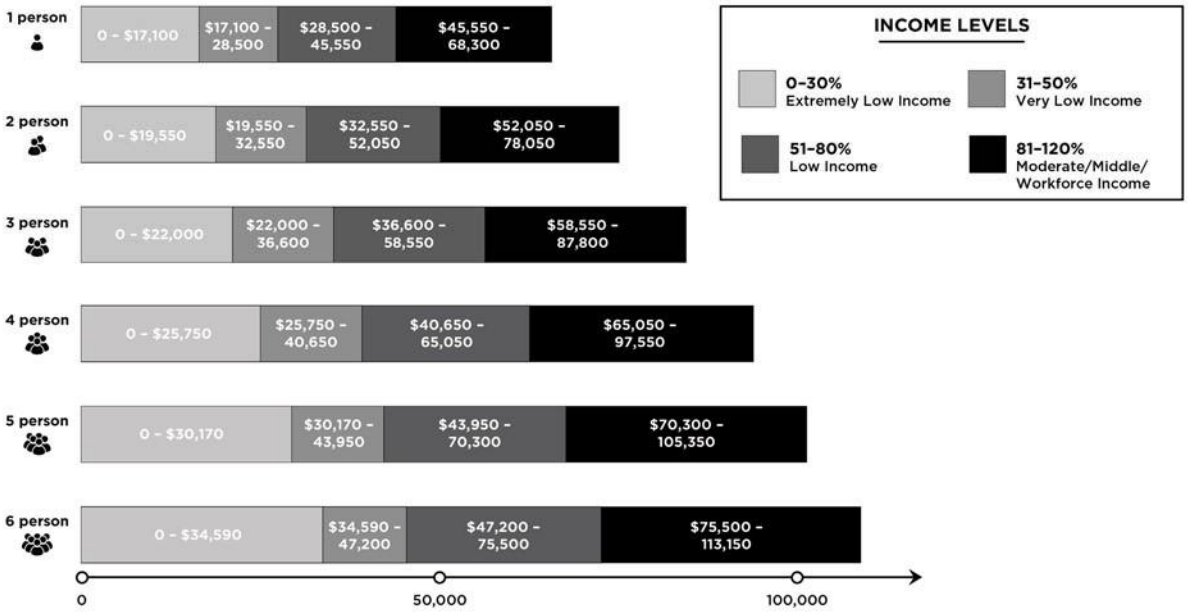
DCED uses the HUD definition of affordable housing to evaluate development proposals. Under HUD's definition, affordable housing is housing where occupants are not paying more than 30 percent of their income for housing (inclusive of utility costs).

The federal government annually establishes income limits for households intending to occupy affordable housing using the Area Median Income, or AMI. The Area Median Income is what a Cincinnati household in the middle of the income distribution earns. In the Cincinnati, OH-KY-IN HUD Metro Fair Market Rent (FMR) Area, the AMI for a family of four is $81,300*. This area, determined by HUD, encompasses the Cincinnati Metropolitan Statistical Area.

Affordability considers two measures:

(1) A household's income, and
(2) The amount paid for housing

DCED projects can target different income levels from extremely low to moderate. To ensure the projects are serving the intended beneficiaries both measures must be calculated. The AMI relevant to any project will also vary based on the size of the household. As a household's size grows, so too does the AMI limit as established by HUD.



As with market-rate developments, developers looking to build affordable rental housing are often faced with the challenge of finding a way to finance their projects. Just because an apartment will be priced affordably doesn't mean that it's any less expensive to build. Land must be purchased, the building must be designed, and contractors must be paid. Affordable housing developers must find a way to balance the costs of development, including debt, with restricted rental income. A public subsidy is always needed to make such projects work.

Example:

> Based on averages seen in the City of Cincinnati, it costs approximately $ 5,000 per unit per year to operate a rental unit (not including tenant heat, electricity or debt service for the building). In order simply pay these operation costs and break even on unit operations, the minimum rent per unit can be calculated at $416.67 ($5,000 / 12 months). Importantly, this assumes no debt and no required return on investment of the property owner.
>
> The Hamilton County AMI for a single person household is currently $57,000 (100% of AMI). The income for a 30% AMI household is $15,000 (2,080 hours per year x $8.85 = $18,408). This is roughly equivalent to a household with one person working part-time for Ohio minimum wage. The federal government defines "rent burdened" as paying more than 30% of income for housing. So, the maximum of this person's income that can go to housing is

$4,500 ($15,000 x 30%), which is approximately $375 per month, including utilities. If utilities run $75 per month, this leaves $300 per month going towards operating expenses.

On average, a unit costs $416.67 to operate. Therefore, the rent of $300 per month doesn't cover operations, even before any debt or return to the owner. At the most basic level, this is a demonstration of the need for affordable housing subsidy. The effect of limiting rent revenue on a property results in a need for project subsidy.

When building housing, whether single or multi family, developers are faced with two underlying questions: 1) What will it cost to develop my product; and 2) Who will pay for its construction?

The answer to the former does not change when considering market rate or affordable housing. Development costs such as the price of land, soft costs like architectural, engineering, legal and financing fees, site preparation and construction costs typically don't vary from affordable to market rate projects.

The second underlying question typically has a different answer for market rate and affordable housing projects. The entity paying for construction ultimately depends on who will invest or lend money to a developer to undertake a project, based on how much income the project will generate once complete.

A market-rate project may generate enough income to attract private debt & equity. That means private investors are willing to lend capital to a housing project with the expectation that they will receive a competitive return on their investment over time.

An affordable project provides housing at a restricted price for residents that are typically low-tomoderate income earners. With restricted housing prices or rents, the project will generate less income and will be less attractive for debt and/or equity investors. This creates a "gap" where the cost to construct the housing exceeds the amount of capital investors are willing to contribute to the project. To illustrate this simply using arbitrary values:

Project Type	**Market**	**Affordable**
Cost/Unit	250,000.00	250,000.00
Return on Investment (ROI)	10%	1%
Investment/Unit Attracted	250,000.00	30,000.00
Funding Gap/Unit	-	(220,000.00)

The funding gap fluctuates based on the target population the developer aims to house. The deeper the income (say, 30% of Area Median Income), the larger the funding gap. A detailed illustration of this can be found below.

AMI LEVEL	30%	50%	60%	80%	100%	120%
2HH **Income Limit**[1]	**$19,550**	**$32,550**	**$39,060**	**$52,050**	**$65,100**	**$78,050**
1BR **Gross Rent (inc. Utilities)**[2]	**$458**	**$763**	**$916**	**$1,221**	**$1,526**	**$1,831**
- Vacancy (7%)	$32	$53	$64	$85	$107	$128
= Effective Gross Rent	$426	$710	$852	$1,135	$1,419	$1,703
- Operating Expenses ($5K/yr)	$417	$417	$417	$417	$417	$417
= Net Operating Income (Monthly)	$9	$293	$435	$719	$1,003	$1,286
x12 Net Operating Income (Annual)	**$109**	**$3,515**	**$5,218**	**$8,624**	**$12,030**	**$15,436**
Investment/Unit Attracted[3]	**$1,022**	**$32,954**	**$48,920**	**$80,851**	**$112,783**	**$144,714**
Cost per Sq. Ft.[4]	$167.74	$167.74	$167.74	$167.74	$167.74	$167.74
x Sq. Ft.[5]	650	650	650	650	650	650
Total Unit Cost	**$109,031**	**$109,031**	**$109,031**	**$109,031**	**$109,031**	**$109,031**
Funding Surplus/Gap	**- $108,009**	**- $76,077**	**- $60,111**	**- $28,180**	**$3,752**	**$35,683**

[1]Income limits from HUD's 2019 HOME Adjusted Income Limits where available; where unavailable based proportionally on 50% Income Limit
[2]All gross rents based proportionally on HUD's 2019 HOME Program Rents at 50% Rent Limit
[3]Maximum Loan derived from 75% Loan to Value Ratio, using 8% cap rate
[4]Cost per square foot based on median total development cost for NOFA 2016 projects
[5]Square footage based on OHFA 2018-2019 Qualified Action Plan's Minimum Residential Unit Sizes

To move an affordable housing project forward, a developer must find a way to bridge the construction funding gap. This is best done with locally and federally funded capital subsidy programs.

In Cincinnati, the most common way to bridge affordable housing funding gaps is with equity attracted from the sale of Low-Income Housing or New Market Tax Credits, and with soft debt (i.e. forgivable loans) and grants – which often are delivered via programs developed and administered by DCED, and sourced from local City Capital dollars or federal HOME or CDBG funds. Other subsidies, such as density variances or property tax abatements, can help increase a developer's return on investment but, alone, will not move the needle enough to attract the investment needed to

undertake an affordable housing project. Without a direct capital subsidy to assist with construction, affordable housing projects will not be built.

Another way to fund affordable housing is to subsidize the end user – the tenant or homebuyer – directly. This can occur through rental subsidies like tenant and project-based rental vouchers, or by homebuyer subsidy programs like forgivable down payment assistance. Common funding sources for these programs include federal funds from HUD that flow through the City or local public housing authority.

Very low-income residents (for example, those at or below 30% of AMI) require assistance to bridge the gap between what they can afford and the basic operations costs for a rental unit (with reasonable debt and a reasonable return on equity). The most common forms of rental assistance are Section 8 vouchers and Public Housing. Vouchers are vital to a variety of people, including those on Social Security due to disability, those on fixed incomes, and very low-income households. For these folks, their affordable rent is below the minimum needed to operate a unit.

Despite being an affordable place to live, as compared to our regional and national peer cities, wage stagnation and a lack of new housing supply contributes to increasing challenges with a lack of affordable housing. The majority of the City of Cincinnati can be described as naturally occurring affordable housing (NOAH). These are units that are affordable to folks somewhere below AMI because they are older, less valuable, less marketable, or in areas where market rents are simply lower.

There are two systemic issues with NOAH: The first issue is income and wages. Wages have been stagnant for decades, while operations costs continue to increase. This results in a gradual erosion of the ability for NOAH to remain in place. Buildings become more expensive to operate, which means property owners must slowly raise rents. However, personal incomes do not rise accordingly.

The second issue is gradual degradation. Existing rents may cover standard operating costs, but larger necessary repairs and renovations are simply not economical. A landlord cannot raise rents high enough to cover basic costs while also having resources to make large improvements. This disincentive to invest results in a slow degradation in quality of NOAH over time.

At times, Councilmembers have discussed changing the way DCED calculates AMI. These discussions focused on utilizing a locally calculated AMI as opposed to using the regional or metropolitan AMI utilized by HUD. While understandable in intent, this proposal would push the allowable rents for any property downward in low income neighborhoods and upward in high income neighborhoods, resulting in larger operating gaps to construct housing in low-income areas and discouraging construction of housing to accommodate a diversity of incomes and housing options.

Because construction, financing, and lending costs do not vary from neighborhood to neighborhood, the cost to construct housing in each part of the City is the same. A single person household making $15,000 will need assistance obtaining housing on their income whether they are 30% AMI for the County or 80% AMI for Winton Hills. Use of a separate AMI scale than the Macro AMI utilized by HUD

would create unnecessary confusion over whether the person making $15,000 can find affordable housing options in the City as most housing reports, financiers, developers, and regulators use the industry-standard HUD AMI. Similarly, the cost to construct housing for singleperson households making $15,000 is the same regardless what neighborhood they are constructed in (exclusive of land). A separate scale may obscure the fact that this housing requires the same per unit construction subsidy from the government in order to move forward regardless of where it is built.

A principal takeaway for City Council and the public: Newly constructed affordable housing in Cincinnati will always require cash or grant funding in addition to property tax incentives. That funding may come from Council, from federal sources, private philanthropy, or other sources, but new funds are the only pathway toward the creation of net new affordable housing units.

Recent indications also suggest that while net new affordable housing requires new funding, the addition of new market-rate housing can provide relief from widespread increases in housing costs for homebuyers and renters. Expanding the general supply of housing available in the City of Cincinnati has dual benefits of promoting growth and net migration into the city, while at the same time preserving naturally occurring affordable housing. New housing supply can reduce higher bidding by higher income households competing for an increasingly smaller stock of available homes.

Policy and Political Uncertainty

In addition to financing and cost increase uncertainties, the policy and political environment also affects property investment decisions. The Investment and economic climate of any city is visible and accessible and more than ever serves as an influencing factor for property and business investment. Cities with stable and efficient policies and practices related to development and job creation have an advantage over places that demonstrate unwelcoming investment environments.

Uncertainty can also stem from internal operations within city government. Throughout the process of real estate-related business investment, business owners will interact with a variety of departments and staff in the process of applying for building and transportation related permits, submitting property incentive applications, and evaluating property entitlements such as zoning. Often, businesses and investors encounter unknown requirements or barriers. To staff and departments familiar with city processes, these hurdles are part of the normal course of doing business with the city, and sometimes staff have no flexibility to apply rules any differently. However, to external parties, and especially to organizations or businesses new to Cincinnati, the process of navigating these barriers is slow, confounding, and even frustrating

Economic competitiveness of the City is another important backdrop for this report, as it provides context and purpose of initiatives designed to grow the tax base. The City of Cincinnati is constantly competing with other jurisdictions for private investment. Our suburban counterparts often compete better in many of these categories. They are perceived as less risky, more stable, and higher income. In addition, comparatively simple site conditions and lenient permitting processes are advantages to our suburban peers.

DCED's Role

DCED leads the City Administration's efforts to encourage population growth, establish long-term stability, create jobs, grow businesses, and secure private investment in our built environment. A vibrant and active economy expands economic opportunity while increasing the City's ability to fund positive quality of life services associated with healthy neighborhoods.

The Administration is reactive to project proposals after private entities have worked for months or years, having spent time and resources evaluating an opportunity. The Administration seeks to, when necessary, utilize last-in incentives tailored to attract as much private funding to bear as possible.

The City's economic growth is largely influenced by regional and national forces. These include:

- The status of the economy
- The availability of affordable capital
- The competitive nature of attracting business and investments
- Development activity in the real estate market, broadly, and within individual sectors (office, housing, industrial) and submarkets

Under the direction of the City Manager, DCED is charged with responding to these forces in ways that derive maximum benefit to the City. This involves:

- Recognizing and addressing obstacles to growth, urban redevelopment, and neighborhood revitalization with technical assistance of department personnel,
- Reacting to job creation opportunities and real estate development needs through deployment of business expansion tools and development incentives as authorized by City Council and in accordance with local and State legislation,
- Executing the City's federally funded entitlement programs, including specific efforts to increase the quality and diversity of housing, reduce blight, improve the vitality of neighborhood business districts, and enhance small business opportunities.

Regarding DCED's role in the City's Inclusion efforts, Chapter 324 and 323 of the Cincinnati Municipal Code do not apply to development agreement and development projects. However, the Administration does regularly hold Meet and Confer sessions and works with developers to place aspirational SBE and MBE goals into each development agreement as standard language.

The Administration takes an active role in soliciting, gathering, and evaluating public participation and engagement during the course of development-related activities.

The Department of Community and Economic Development, the Planning Department, and the Building's and Inspections Department all utilize community engagement with the goal of offering being as inclusive and open to the community needs to the extent practicable while pursuing growth, vibrancy and investment within the City. Depending on the type of project being pursued, engagement methods may include in-person discussions, technology-based aided communication, community meeting presentations or dialogues as part of the decision-making process.

For DCED specifically, DCED staff are assigned as liaisons to each of the City's 52 neighborhoods. Over the course of each month or year, staff are in regular contact with representatives of neighborhood community councils, business districts, and community development corporations. These relationships and lines of community are crucial both for keeping communities informed about the work of DCED, but also for ensuring that DCED and the Administration at large are wellinformed about ongoing and forthcoming projects and developments throughout the City. For further information, please reference Council Item 201800064 for more thorough information on community engagement in the development process.

When proposed new developments encounter financing gaps due to risk or uncertainty, developers approach the City for "last-in" financial assistance. The City's incentives function as resources that fill these project gaps. When private market resources do not provide enough funds to satisfy the cost of construction and operation, the project will not move forward.

DCED embraces, and takes seriously, its stewardship of public trust, and seeks to provide only the minimum level of incentive necessary to maximize the number of projects that can be supported with limited City resources. This level changes based on myriad factors such as the nature and cost of the project, asset type, strength of the local market (which varies by neighborhood), and competition. Although indicators of business and local market confidence are improving, as with national trends, the growth cycle is not geographically uniform or widespread among each asset type.

PART D: CURRENT PROGRAMS AND TOOLS

Over time, City Council has established policies that provide direction to the Administration for incentivizing investment in businesses and our real estate market. These policies form the structure of DCED's incentive framework.

These tools, combined with state and federal tools, are utilized by the City to compete for private investments. The Administration seeks to win investment with the highest leverage possible, either through right-sized, last-in property tax abatements, or through properly underwritten awards of capital or CDBG funding for new construction or renovation projects.

There are several positive outcomes and attributes of current City Council and Administration policies related to investment. These policies succeed at:

- Winning investment at little or no cost to the City General Fund or Capital Fund budgets.
- Providing a funding stream for identified Council priorities (such as affordable housing, streetcar operation funds, neighborhood councils, or neighborhood development organizations).

There are several challenges with current Council policies related to investment. These policies do not succeed at:

- Providing flexibility for the Administration (for example, restricting incentive available to affordable housing projects) in negotiations.
- Providing job creation related payroll incentives that respond to our 21st Century economy (including startups, co-working, and work-from-home trends).
- Addressing underlying land use, zoning, and other policy restrictions placed on development.
- Providing predictability for investment decisions.

Lastly, there are some issues which no Council policy can ameliorate. No Council policy can:

- Increase Cincinnati's low underlying market rents for office, commercial, or residential developments.
- Eliminate the need to provide additional money for new affordable housing.

Incentives Review

In 2014, City Council passed a motion asking the Administration to prepare a report detailing and analyzing financial incentive policies utilized by the Administration. In response, the City hired HR&A Advisors, a national expert, at a cost of approximately $200,000 to review certain City incentives allocated between 2005 and 2015. The consultant provided a final review and report in June of 2016. Overall, the report supported the Administration's use of the tools and recommended a variety of iterations and improvements.

Following this report, City Council adopted changes to the Commercial CRA and Residential CRA programs, including the addition and expansion of the Voluntary Tax Increment Contribution

Agreements (VTICA) and other changes that fundamentally altered the manner in which the Administration utilized the programs. However, DCED has continued to utilize the recommendations provided and has taken an approach of continuous improvement. The consultant principally studied:

- The CRA program
- The JCTC program
- The JCTC-CRA tools (as a combined incentive)
- The Housing Loan program

DCED has responded to the consultant recommendations by modifying practices and procedures of these incentive programs. DCED has:

- Exercised more judicious use of the payroll incentives to mitigate impacts to the General Fund.
- Utilized the JCTC more efficiently by increasing City leverage through term and credit matching and lower incentive percentages
- When possible, directed businesses to the revenue neutral CRA program in place of the JCTC program.
- Consistently utilized industry-standard metrics to more accurately evaluate project proposals and underwrite projects.
- Standardized information transmitted to City Council for deal evaluation and review.
- Prioritized project incentives to build neighborhood and developer capacity.
- Increased frequency of coordination with stakeholders to enact targeted neighborhood revitalization and quality of life enhancements.

The Federal Government, State Government, and City Council have authorized the utilization of various financial tools to improve community and economic development outcomes. Relevant programs administered by DCED are listed and described on the following pages.

Program:	Applies to:	Mechanism:	Funding Source:	Private Funds:	City Benefits (Intended Outcomes)
American Dream Downpayment Initiative (ADDI)	Low-income firsttime homebuyers	0% Interest loan for down payment and closing costs. Loan payment deferred based on 5-year residency requirement.	HUD HOME funds	Yes	• Increases homeownership rate, especially among lower income and minority households • Protects against displacement • Revitalizes and stabilizes neighborhoods
Community Development Corporations (CDCs)	Operating Support to Cincinnati CDCs	Operating support for staffing and operations to enable Cincinnati CDCs to perform neighborhood development activities	HUD CDBG and HOME funds City General funds	No	• Organizations invested in neighborhood development • CDCs have overlapping mission to City to grow neighborhoods and address community problems
Code Enforcement Relocation (Operated by PMCE)	Persons displaced from housing by code enforcement and/or lead-based paint hazards	Enables the City to pay first month's rent, security deposit, moving expenses for persons moving to safe and sanitary housing due to displacement by code enforcement and LBP hazards	HUD CDBG funds	No	• Prevents homelessness • Protects against displacement • Improves resident quality of life and access to safe housing
Commercial and Industrial Redevelopment	Blighted properties and sources of environmental contamination in the City	Enables the City to secure and address problemproperties in neighborhoods where human health, safety, and the environment are threatened	HUD CDBG funds	No	• Eliminates blight, physical hazards, health and safety risks, removes sources of environmental contamination contributing to adverse health outcomes in neighborhoods • Improves stock and quality of buildings in the City • Revitalizes and stabilizes neighborhoods • Prepares sites for redevelopment that would otherwise be too costly and risky for private market (developers and banks) to participate in

CRA Property Tax Abatement Residential	Single Family Homes	Temporary savings on homeownership expenses to owner. Freezes property tax value at pre-improved levels up to 15 years.	N/A	Yes	▯ Increases homeownership rate ▯ Improves stock and quality of housing in the City ▯ Revitalizes and stabilizes neighborhoods
CRA Property Tax Abatement Commercial	Commercial property and multi-family home construction and rehabilitation projects	Temporary savings on property taxes that reduces the building / operating costs of the project. Enables lenders to finance the project due to lowered project expenses, meaning lower risk of defaults.	N/A	Yes	▯ Increases number of new housing units and resident options in the market ▯ More housing units (supply-side) lowers rental rates ▯ Drives and accommodates re-population of the City ▯ Revitalizes and stabilizes neighborhoods Promotes private investment in the City's built environment, upgrading infrastructure and building stock ▯ Promotes business permanence and stability in the City ▯ Drives commerce and additional investment to the area
Compliance Assistance Repairs for the Elderly (CARE)	Elderly homeowners who qualify as extremely lowincome	Provides funding to eligible homeowners to correct exterior home code violations. Additionally, this program partners with Blueprint for Success to develop students and provide on-the-job training.	HUD CDBG funds	No	▯ Addresses properties owned by vulnerable residents, including elderly and persons with disabilities Improves stock and quality of housing in the City Stabilizes neighborhoods, ensures continuity of homeownership ▯ Aids property concerns identified in NEP ▯
Concentrated Code Enforcement (Operated by PMCE)	Funding for B&I code enforcement	Funds B&I Property Maintenance Code Enforcement Division to conduct inspections of homes and businesses in targeted areas and areas of transition	HUD CDBG funds	No	▯ Supports NEP efforts

Emergency Mortgage Assistance	Low-Moderate Income-qualified homeowners	Provides funding to Legal Aid Society to deliver foreclosure prevention counseling, legal assistance, and up to 3 months of mortgage payments	HUD CDBG funds	No	▯ Stabilizes homeownership
Fair Housing Services	Operational support for local fair housing agency Housing Opportunities Made Equal (H.O.M.E.)	Funds H.O.M.E. to increase integration throughout City neighborhoods and reduce unlawful discrimination in housing	HUD CDBG funds	No	▯ Improves resident quality of life and access to secure housing ▯ Receives and addresses housing complaints, conducts investigations and files legal actions against persons/entities suspected of housing discrimination
Findlay Market Capacity Building	Operating support	Capacity-building assistance and market promotion	HUD CDBG funds City General funds	Yes	▯ Supports market operations and expansion
Grow Cincinnati Fund	Small Businesses with challenges securing traditional financing due to equity requirements	Provides a loan at least $100,000 for fixed assets, working capital, and eligible refinancing activities	HUD funds	No	▯ Promotes entrepreneurship and small business growth ▯ Decreases unemployment
Hand Up Initiative	Job readiness and job training	Funds agencies / service providers in response to competitive RFP	HUD CDBG funds	No	▯ Provides opportunities to residents of City's most atrisk neighborhoods ▯ Promotes economic mobility and opportunity for personal training and growth

Hazard Abatement Program	PMCE	Barricades unsafe properties and facilitates demolition of blighted properties	HUD CDBG funds City Capital funds	No	▯ Eliminates imminent risks to human safety ▯ Improves housing stock in City ▯ Prepares sites for redevelopment or reuse
Historic Stabilization of Structures	PMCE	Stabilization of historic properties	Yes	No	▯ Eliminates imminent risks to human safety ▯ Improves housing stock in City ▯ Prepares sites for redevelopment or reuse

Housing Repair Services	Very-Low-Income Homeowners	Critical emergency repair and modifications	Yes HUD CDBG funds	Yes	▯ Stabilizes homeownership ▯ Supports mobility
Housing Notice of Funding Availability (NOFA)	Development of Homeownership and Rental Opportunities	Competitively awarded loans or grants to construct or rehabilitate residential projects	HUD funds City Capital	Yes	▯ Projects create new housing units in the City, with high percentage being affordable rental units ▯ City funds are “last-in” and generates high leverage from other sources ▯ Revitalizes and stabilizes neighborhoods
Lead-Based Paint (LBP) Hazard Reduction Grant	Privately owned income-eligible housing units with potential for presence of leadbased paint	Open application	HUD funds	Yes	▯ Improves resident quality of life and access to safe housing ▯ Improves health outcomes for the City’s vulnerable populations ▯ Involves job training and employment in lead abatement
Lead Hazard Testing Program	Code enforcement associated with lead hazards in residences	Available in target census tracts	HUD CDBG funds City General funds	No	▯ Improves resident quality of life and access to safe housing ▯ Improves health outcomes for the City’s vulnerable populations

Job Creation Tax Credit	Businesses with commitment to relocate and/or grow within Cincinnati	Temporary savings on a firm's local net profits tax based on the firm's new income-tax contribution to the City	N/A	Yes	Incentivizes new job creation/ retention in target industries Contractually connects employers to local workforce development initiatives, improving local hiring
MicroCity Loan	Business with 5 or fewer employees, and for activities that: create/retain jobs, prevent or eliminate slum and blight, improve a low/mod area	Provides a loan up to $35,000 for operational, equipment, and facility expenses	HUD funds	No	Promotes entrepreneurship and small business growth Finances the smallest enterprises often facing the greatest barriers to securing traditional financing

Neighborhood Business District Improvement Program (NBDIP)	Projects located in Business Districts that encompass public and infrastructure improvements, property acquisition and development	Competitively awarded grants, funded annually	HUD funds City Capital funds	No	Promotes business development and growth Improves infrastructure, quality, safety, and accessibility of built environment Enables small businesses to inhabit business districts Revitalizes and invests directly in neighborhoods
Small Business Services	Loans and business counseling	Open application	CDBG	Yes	Promotes business development and growth Decreases unemployment Increases tax base
Strategic Housing Initiatives Program	Development of Homeownership and Rental Opportunities for low income households	Competitively awarded loans or grants to construct or rehabilitate residential projects	HUD CDBG, HOME	Yes	Promotes the renovation and new construction of housing for low income households Can include single family, multifamily, and permanent supporting housing

Tax Increment Financing District (TIF) and Project TIF	Projects requiring gap financing or significant public infrastructure improvements	Loans or grants considered based on District capacity, public benefit, and project need	District TIF Funds	Yes	▯ Promotes business development and growth ▯ Generally associated with projects of significant private investment
Tenant Representation	Funds Legal Aid	Legal assistance to tenants facing unlawful evictions and utility shutoffs	Yes CDBG	No	▯ Improves quality of life and housing stability Prevents ▯ homelessness
Vacant Lot Reutilization	Projects with Office of Environment & Sustainability and DCED	Competitive application	Yes CDBG	No	▯ Transforms blighted lots into neighborhood greenspaces and gardens ▯ Improves local amenities, quality of life
West Price Hill Area Development	Homebuyers in the West Price Hill area	Enables the renovation of ten single family homes, 6 of which are targeted to households at or below 80% of AMI	HUD CDBG funds	No	▯ Increases homeownership ▯ Improves blighted property or lots ▯ Stabilize neighborhoods
Youth and Young Adult Employment	14 to 18 year old lower income youth	Provide employment opportunities to low income youth	HUD CDBG funds City General funds	Yes	▯ Decreases unemployment ▯ Helps to increase household income ▯ Workforce development ▯ Increases financial literacy

PART E: COUNCIL REQUEST

The Motion requests information from the Administration about how current incentive tools are utilized in order to guide Councilmembers in making informed decisions about incentive policies. Specifically, the Motion requested:

A. Information about current incentive programs.
B. Administration expertise regarding affordable housing.
C. Programs and policies related to local job creation and wages.
D. Programs that incentivize investment in disinvested neighborhoods.
E. Qualitative measurements for achieving these priorities.
F. Administration expertise on levels of development subsidies.

These topics have been primarily addressed in preceding sections.

Outside of the Motion, other topics and issues directly requested of the Administration in conversations have focused on the notion of balancing development and the potential for utilizing an additional or revised scorecard for evaluating individual development proposals. These themes have also been expressed by Councilmember Landsman and other Councilmembers during the normal course of City business.

Development Scorecard

DCED has reviewed a variety of development-related "scorecards". These tools are often created by community advocacy organizations or not-for-profits with the aim of influencing development practices. Such scorecards exist in the in other regions, such as the Twin Cities of Minneapolis St. Paul. Locally, the Peaslee Neighborhood Center published an Equitable Development Scorecard which, on request from Councilmember Landsman, we examine in more detail below.

Within municipal government operations, practical applications of scorecards is harder to demonstrate. DCED has found recent scorecards created by ordinance for San Joaquin County in California, and in Dallas, Texas. Publications by HR&A reference scorecards in Indianapolis (focused primarily on job creation projects), though the rubric itself is not publicly available. The degree to which these relatively simple versions of scorecards are being utilized is not yet clear or publicly available.

Peaslee Equitable Development Scorecard

The Peaslee Neighborhood Center (PNC) has developed a rubric for scoring developments seeking City support. The scorecard considers any kind of support as a qualifying factor for using the scorecard, including tax abatements, zoning variances, or sale of public land. The proposed rubric assigns points to a series of standards across four major categories (Housing Affordability, Jobs & Labor, Community Input, and Community Footprint) as well as five secondary bonus categories. A rubric score is meant to be used by decision makers at the City to determine if any public support should be granted to a project.

Rather than a "level of incentive" score, the PNC rubric establishes a minimum qualifying threshold. Projects scoring under this threshold are not recommended, and projects over this threshold would be eligible. The minimum score necessary differs by neighborhood. Generally, higher income neighborhoods require a higher baseline score than lower-income neighborhoods. For example, a project would need to score a minimum of 75% to receive incentive consideration in Hyde Park, whereas a project in Over-the-Rhine would need to score 50% or higher on the rubric to receive incentive consideration.

In order to demonstrate the effect of this scorecard on actual development projects, DCED utilized the scorecard on projects recently or soon to be considered by City Council. All three of these projects were supported by City Council for property tax incentives, or other combinations of city support.

Willkommen (Over-the-Rhine)

Proposed by 3CDC and The Model Group, the Willkommen project is a $47 million mixed-income, mixed-use development spread across roughly 20 vacant properties throughout the neighborhood of Over-the-Rhine. The project will create approximately 170 residential apartments and 25,000 square feet of commercial space. This project has a very high level of affordability (compared to most new construction or renovation projects in the City), with 56 units (33% of total) affordable at 60% AMI or less, and an additional 20 units affordable at 80% AMI or less.

Also important: In order to achieve this level of affordability, the project will utilize the following public financing tools to ensure feasibility:

- Low-Income Housing Tax Credits (LIHTC)
- New Markets Tax Credits (NMTC)
- Federal & State Historic Tax Credits
- Federal HOME Funds
- District TIF Funds

In addition to the above financial tools and incentives, the Developer also required the following support from the City related to property entitlements and zoning:

- Sale of City-owned property
- Zoning variance for increased density
- Commercial CRA tax abatement

Minimum Threshold Necessary (OTR): 50% Final Score: 38%

Per the scoring criteria, the project should not receive support from the City.

This outcome is disconnected from current development realities in Cincinnati. If this project were not to receive City support, it would not move forward. This would leave nearly 20 properties vacant,

reduce the supply of new housing, and prevent the creation of new affordable housing, a portion of which is deeply affordable.

Further, if the project becomes infeasible, the individual properties would either remained vacant, or they would be redeveloped without City assistance or variances. While the proposed project would result in a mix of high-density housing units, the alternative would likely create fewer but more expensive luxury townhomes. Those are realistic paths for developers to achieve returns for their investments without asking the City for density variances or incentives. In this case, the Peaslee Scorecard would in fact work counter to stated City goals of more density and more affordability.

Poste (Walnut Hills)

This $18.2 million, mixed-use & mixed-income project is currently under construction in Walnut Hills by Milhaus Development, the Port Authority, and the Walnut Hills Redevelopment Foundation. The first phase of the project will encompass three newly constructed buildings on two formerly City-owned vacant lots, containing altogether 4,420 square feet of commercial space and 124 residential units. The project includes an affordability component wherein 10% of the units will be restricted to households earning between 80-120% of AMI for a minimum of 5 years.

The project utilized the following public financing tools and City incentives to ensure feasibility:
Below Market Sale of City-owned Property
 Grant of $800,000 in City Capital funds for site remediation & preparation
Private-Project TIF (41b)

Minimum Threshold Necessary (Walnut Hills): 50% Final Score: 38%

The proposed baseline minimum score needed to receive incentive consideration from the City in Walnut Hills is 50%. According to the Equitable Development Rubric, this project should not have been supported by the City. If this process were implemented, and City support were pulled, the project would likely have not moved forward. The neighborhood would be left with continued vacancy and blight on the project site, and the expansion of the housing supply and the net new affordable units would have been lost.

100 E Clifton, 101 & 105 Peete Street (Over-the-Rhine)

This $3.5 million LEED certified, historic renovation of 100 E Clifton, 101 & 105 Peete Street will include 16 market-rate rental apartments, as well as 950 square feet of commercial space. The project is led by a minority-owned developer, a husband & wife team, investing in their first building in Over-the-Rhine.

The project will utilize the following public financing tools and City incentives to ensure feasibility:

- Federal & State Historic Tax Credits
- Commercial CRA LEED tax abatement

Minimum Threshold Necessary (OTR): 50% Final Score: 25%

The proposed baseline minimum score needed to receive incentive consideration for Over-theRhine is 50%. According to the Equitable Development Rubric this project should not be supported by the City.

Like the Poste project, if this process were implemented and City support were pulled, the City and the neighborhood would be left with three vacant and blighted buildings and no new housing units. In addition, this small, minority-owned developer would likely be forced to abandon their first project in the City, and would be faced with either delaying and revising the project without Citysupport to cater to high-end, luxury units that command higher rents, or cancelling the project altogether and selling the property to a larger, more established development group to tackle the project.

Scorecard Review

The Administration utilizes a variety of incentives, including tax abatements, zoning variances, reduced parking requirements, and property sales, to support development of real estate within Cincinnati. Often, these City resources are used in a "but-for" scenario, whereby a market-rate project would not move forward without City support. Production of housing at or below 60% AMI rental rates is prohibitively expensive and extremely difficult to finance. For projects of this nature to be feasible, the City must provide direct capital subsidy – which is extremely limited – in addition to other incentives such as tax abatements and zoning variances.

While DCED understands the intentions of the scorecard, the Equitable Development Rubric as analyzed by DCED would create new barriers to development. This effect is counter to City efforts to minimize barriers to investment.

Without a large increase in available funding to offset these costs and barriers, a scorecard such as the Peaslee example will not result in the creation of additional affordable housing. It might also result in small, first time, or less experienced developers finding difficulty proving project viability. Projects that would move forward would likely cost more, driving up rents and reducing affordability. For projects that can't achieve those rent rates, they will require increased subsidy to proceed. Lastly, the Administration wouldn't have the discretion or flexibility to adjust to project parameters, developer constraints, or neighborhood context.

PART F: RELATED RESEARCH

As part of this Report, DCED staff researched a variety of related programs in cities across the nation that relate to the topics in the Council motion. Each of these programs exist within differing state or local policy environments but may be worth further research and study as City Council explores local policy changes. These program snapshots are organized according to typology, including affordable housing and housing supply, owner occupancy and displacement, home ownership, local job creation, minority and small business inclusion, and neighborhood investment. Each snapshot reference the city or locality and the program name to assist with further research of similar or related efforts across the county.

Similar to the 2016 HR&A study of DCED Incentives practices, the Administration would typically leverage the work of outside contractors or consultants to engage in a comprehensive analysis of any or each of these topics in order to provide City Council with as much information as possible.

Without available resources to fund outside expertise, the Administration seeks to provide the above enclosed research to demonstrate the variety of related programs and efforts in municipalities across the country.

Affordable Housing and Housing Supply

The below programs seek to increase the supply of housing in general, or to create new or maintain the existing supply of affordable housing in different communities.

- *Nashville* has a variety of efforts aimed at addressing the shortage of affordable housing. The Barnes Fund for Affordable Housing is a city-held housing trust fund with an annual commitment of $9.8 Million. The fund is managed by a full-time staff and can be used to incentivize or support non-profit developers to create or preserve affordable housing in Nashville or Davidson County. Eligible uses for these funds include competitive grants for home ownership, rental, and homeowner rehabilitation, as well as non-profit capacity building.

- In *Nashville*, the Community Land Trust is an organization that maintains control and oversight of affordable housing resources through ownership of land. In one program, homeowners agree to resale arrangements that provide a seller with a share of the home's equity in exchange for an affordable and below market purchase price. In this way, the program ensures the home remains affordable for another low-to moderate-income homebuyer.

- *Nashville* also utilizes General Obligation Bonds for affordable housing. In the 2017-2018 budget, the mayor and council agreed to allocate $25 million in general obligation bond funds to acquire and rehabilitate existing multi-family rental units, as well as adaptively reusing buildings and developing housing on metro-owned properties.

- The Housing Incentives Pilot Program in *Nashville* provides grants for affordable or workforce housing. The intent is to bridge the difference between the average rental rate for a market-rate unit, and the average rental rate for an occupied affordable or workforce unit for the duration of the affordability period. For new construction projects, the grant amount cannot exceed 50% of the difference between the annual post development and pre-development real property tax value assessment. For existing construction, the grant amount cannot exceed 20% of the real property tax assessment for the calendar year.

- In *New Orleans, The* Mayor's Housing Plan reserves a portion of tax-adjudicated properties for affordable housing development. It identifies NORA's (New Orleans Redevelopment Authority) priority bid at sheriff's auction to secure property for affordable housing. In addition, the Plan calls for the city to reserve city-owned property for affordable housing, and to create a source of funding for workforce housing. It specifically identifies upzoning and density measures to increase housing and affordable housing. Lastly, it proposes to expedite permitting for affordable housing projects.

- In *Memphis, the* 3.0 Plan is a comprehensive plan focused on growing the population of Memphis, and proposes relaxing regulations in favor of affordable housing, including measures such as removing parking minimums, allowing for Accessory Dwelling Units (ADUs), and relaxing density restrictions and limitations. A large number of cities across the country already expressly permit the construction of ADUs, including Portland, OR; Minneapolis, MN; Seattle, WA; and Philadelphia, PA. This policy change can reduce the cost of housing and increase the available supply of housing, while simultaneously opening new opportunities for dense, environmentally friendly infill construction.

- The *City of Houston* recently followed Cincinnati's example by removing parking requirements in the urban core. Other cities, including Buffalo and Minneapolis, have enacted even larger scale polices that eliminate mandatory parking. These changes have dual benefits of increasing walkability and lowering housing construction costs, in turn reducing rental rates for newly constructed housing.

- In *Seattle*, one of the fastest escalating price markets in the United States, home sale prices have recently fallen as construction of new units accelerated. In Oakland, CA, two neighborhoods experienced very similar increases in both home values and rental rates. However, one of the neighborhoods, Fruitvale, has built much more housing than Uptown, and has seen far less demographic change as a result of the new opportunities created by net new housing units.

- The *Minneapolis* City Council recently passed plans to remove or eliminate single family zoning from their zoning classifications, effectively upzoning the city. The process for implementing these changes will take a few years, as the City Administration is now tasked with moving through each neighborhood in the City to adjust zoning criteria. The ultimate result of this upzoning process could create many more opportunities for "missing middle"

housing typologies, such as duplexes and triplexes, in neighborhoods which would have previously required zoning variances. This approach is attuned to the heavily predominant, underlaying single-family in Minneapolis and may not adapt well to all cities but is likely to create more opportunities to expand housing supply in Minneapolis.

- As conversations across the country continue to focus on affordable housing and development, one policy tool is often mentioned: Inclusionary Zoning. A recent and comprehensive study from the *Urban Land Institute* explored Inclusionary Zoning and its effectiveness and outcomes. The study found that the most important factor for effective Inclusionary Zoning is significant and sustained market-rate development in the local market where Inclusionary Zoning is implemented. If a community is not experiencing a substantial amount new development, an IZ policy will not generate meaningful, affordable housing production. In addition, even after implementing Inclusionary Zoning, a municipality will still likely need to provide additional development incentives to ensure projects can move forward, even at only moderate rates of affordability. Lastly, the study found that Inclusionary Zoning may produce workforce housing only under specific conditions. For the projects studied, deeper affordability (i.e. 30-80% AMI) still required capital subsidy, operating subsidy, density bonuses, permit waivers, or other incentives.

Protecting Against Displacement

The below programs were designed to ensure that lower income and senior citizen homeowners can remain in their homes or better maintain their homes as neighborhoods change.

- *Atlanta* created a Heritage owner occupied rehab program. This program helps current lower-income City of Atlanta residents remain in their homes and avoid displacement. It offers residents forgivable loans to make critical health and safety repairs on their homes. Eligible homes include Senior households aged 55 and above, military veterans, disabled head of households, and those that have been in their homes for 15+ years will have priority in the programs. This program was made possible by the Housing Opportunity Bond, a $40 million bond issuance approved by Atlanta City Council in March 2017.

- *Philadelphia* utilizes a longtime owner-occupant program that provides real estate tax relief for eligible homeowners whose property values increased by 50% from the previous year. Only lower-income homeowners are eligible. In addition, the city has an owner-occupied real estate tax payment agreement program which allows homeowners to make affordable payments on property taxes that are past due. Lastly, the Real Estate Tax Deferral Program, in instances where real estate taxes increased by more than 15% from the previous year, allows the postponement of payments of increased or excess amounts until the property is transferred or sold. The program requires 2% interest accrual and eligibility is based upon income limits.

Homeownership

The below programs were designed to provide resources specifically to homeowners to maintain or repair their homes. Other programs provide downpayment assistance to assist first time or low income buyers in purchasing their first home.

- In *Milwaukee*, the STRONG Homes Loan provides up to $20,000 to owner-occupied buildings. The interest rate for the loan depends on the applicant's AMI, and forgiveness is possible if occupancy is retained for ten years after loan origination date. A separate program, the Homebuyer Assistance Program, makes available forgivable loans up to $20,000 for rehabilitation of city-owned homes for people who will occupy homes as their primary residence.

- Also in *Milwaukee*, the Targeted Investment Neighborhoods (TINs) program focuses on property improvement to existing homeowners. Eligible uses include home rehabilitation, energy conservation projects, MEP, HVAC, and similar improvements. The program makes available $15,000 forgivable Loans that require a 1-for-1 match. These loans convert into grants after 5 years. The program is focused on a small geographic area.

- In *Louisville*, the City has a variety of incentivizes to increase homeownership in certain areas and is currently focused on the Russel neighborhood. The program requires that the applicant live in the affected home and must own it for five years. The City, as part of a sustained program, will help with qualified building improvements of less than $25,000.

- In *Pennsylvania*, the Pennsylvania Housing Finance Agency runs an Employer Assisted Housing Initiative. This program allows employers to partner with the PHFA in order to stretch the home buying downpayment dollars for participating employees. The cost to an employer is low, and the benefits include increased retention rates and recruitment benefits. Employees benefit by increasing leverage of their own downpayment costs or even through better loan terms.

- In *Louisville*, the City has a Down Payment Assistance program that makes available Forgivable loans to assist with purchasing home that will function as a primary residence. The purchaser does not need to be first time home buyer but must have an income at 80% AMI or below.

Local Job Creation

These job creation programs are a small snapshot of the variety of business assistance programs implemented by other municipalities. They focus on technical assistance, rental subsidy, business equipment financing, and other flexible loan programs.

- *Minneapolis* Innovation Voucher Award Program: Provides $5,000 to $25,000 awards to assist small businesses purchase technical assistance and services necessary to advance research, development or commercialization of new or innovative products and services.

- *Cleveland* created the Tech Delta Program which provides grants on square footage basis for tech companies, up to a maximum of $50,000.

- *Nashville* has a Fast-Growing Business Employment Incentive in which Companies with less than 100 employees that add 10 or more jobs in a 12-month period are eligible for a onetime $50 per job grant ($750 for Vets). Each job must pay $36,624 annually (80% AMI).

- The *City of Cleveland* has an Equipment loan program. This program offers Long-term fixedrate financing for business equipment up to $500,000. Each business must demonstrate that traditional bank financing is not available.

- In *Atlanta*, the City utilizes a Creative Industries loan fund. The program offers loans with low interest rates and flexible repayment terms for local creative entrepreneurs to use for production, post-production, distribution, marketing outreach, touring, prototype development, product development and sales and attraction for their creative projects. Eligible loan amounts are from $5,000 - $50,000.

Minority and Small Business Inclusion

Similar to local job creation programs, cities maintain a variety of diverse programs focused on minority and small business growth and inclusion.

- In *St. Louis*, the City partners with employers for apprenticeships to build union diversity. The City created an apprenticeship with construction unions focused on minorities, women, and St. Louis residents with or without construction experience.

- The *City of Memphis* created an EDGE Impact Fund. In partnership with the Grow America Fund, the EDGE fund will make SBA-guaranteed loans of $150,000 or more to small businesses. In addition, as part of an economic gardening program, the City provides small business access to a network of highly skilled research specialists that provide up to 36 hours of consultant services aimed at helping small but growing companies make good business decisions. Eligible firms must have at least 7 employees, $700,000 of sales, and focus on regional, national, or international markets.

- *Cleveland* has a variety of small business programs. The Municipal Small Business Incentive is a performance grant which allows businesses to reduce their equity in any SBA fund projects from the required 25% down to 10%. The Neighborhood Retail Assistance Program provides financial assistance to neighborhood retail businesses to upgrade the exterior and interiors of selected businesses. Lastly, the Minority Construction Loan program allows MBE contractors and construction supply firm to purchase inventory or equipment.

- In *Columbus*, the Business Development Loan Fund provides low-interest loans up to $200,000 for the acquisition of real estate and large equipment. The program is a matching

loan program. In addition, a Working Capital Loan Fund provides low-interest loans up to $100,000 for the acquisition of real estate and large equipment. It requires that a second lending institution match the Business Development Fund amount to comprise the principal of the loan. Lastly, the Neighborhood Commercial Revitalization (NCR) Investment Fund provides loans up to $100,000 for fixed asset financing within the NCR designated business district.

- The *City of Toledo* created an Enterprise Development Loan Program. This program is intended to encourage private lenders to provide credit to firms which have difficulty securing reasonable financing in order to promote growth while preserving working capital. The goal is to assist disadvantaged business enterprises.

- *Atlanta's* NPU-V Small Business Improvement Grant is a program for businesses or property owners in the Mechanicsville, Pittsburgh, and Peoplestown neighborhoods. Qualified property owners and business owners can receive between $3,000 and $10,000 for eligible exterior and interior renovations. This program is in partnership with the Annie E. Casey Foundation.

- *Detroit* created a minority inclusion program focused on the supply side of the development pipeline. By training cohorts of minority real estate development programs, and pairing them with experience and established mentors, the program's goal is to ensure that real estate developers in Detroit reflect their city's actual diversity. The Equitable Development Initiative's first cohort was in 2018.

Investing in Disinvested Neighborhoods

The City of Cincinnati has diverse tools and resources for encouraging investment in blighted neighborhoods. Other municipalities leverage data to focus on commercial property improvement through code enforcement, grants for property improvement, land banking, and tax abatements.

- In *New Orleans*, the Blight Stat program was created to connect neighborhood conditions to residents and city officials using data. Data was collected and funneled to code enforcement and community development officials in order to set priorities and funding. In addition, the Fresh Food Retailer program increases access to fresh foods in traditionally underserved neighborhoods with direct financial assistance to retail businesses by awarding forgivable and/or low-interest loans to supermarkets, grocery stores, and other fresh food retailers.

- *Nashville* utilizes a variety of programs and tools for investing in disinvested neighborhoods. The Property Investment Incentive program is aimed at commercial properties for the purpose of constructing or rehabilitating the exterior portions of commercial properties located in Tier-1 census tracts (65% of households are 80% AMI) with an existing property value less than million dollars ($1,000,000). Each grant amount is for 50% of the investment in the improvements up to a $50,000 cap with a minimum $10,000 investment by the property owner. In addition, the city provides funding for improvements to Historic Buildings

in commercial use areas. Metro Nashville allocated $150,000 of its budget for Fiscal Year 2017-2018 for the purpose of offering matching grants in order to preserve Nashville's cultural draw, enhancing the uniqueness and the vibrancy of its neighborhoods. This program is available for historic structures within Tier-1 census tracts within Davidson County. Funding is only applicable to exterior work on historic properties (roofs, windows, masonry, siding, etc.), with the amount of the grant not exceeding fifty percent of the documented investment of the developer up to a maximum grant amount of $50,000, and a minimum amount of $5,000.

- In *Memphis*, the Inner-City Economic Development Loan Program provides small, 3-year, forgivable loans up to $25,000 for façade and building improvements. Buildings must be located in New Markets Tax Credit eligible census tracts. This program is funded by the City of Memphis' PILOTs personal property tax fee.

- In *Kansas City*, the Redevelopment Authority undergoes land clearance efforts. This entity utilizes property tax abatements, bond issuances, and assistance with land assembly to remove blight and encourage redevelopment within designated urban renewal areas. The abatements are up to net 75% for 10 years.

PART G: RECOMMENDATIONS

In the preceding pages, the administration has laid out the conditions of our market, in part, so that we may present recommendations directly responsive to those conditions. In other words, we are presenting recommendations calibrated to genuinely move the needle – in this particular market – on the policy goals articulated in the motion. Further discussion, research, and legal vetting will, of course, be necessary for each recommendation. In certain instances, City Council may also need to amend existing legislation.

The first collection of recommendations focus on the goal of realistically expanding the stock of affordable housing in Cincinnati. At its core, the goal of realizing affordable housing in any real estate market requires generating more overall housing, in the broadest sense, in that market. This requires increasing the supply of both newly constructed housing and newly renovated housing. An increase in supply increases the likelihood for retaining "naturally occurring" affordable housing. Naturally Occurring Affordable Housing (NOAH) is housing that becomes affordable not through government subsidy or regulation, but through the natural operation of the housing market (including age, layout, amenities, etc.) on a building's rental rates.

The addition of net new units of subsidized affordable housing to Cincinnati's real estate market (whether through new construction or renovation) will always requires subsidy – without exception. The recommendations included in this report reflect the Administration's professional experience of just what those costs will be.

Cincinnati's economic reality is twofold: Our City does not have enough market rate development to keep up with demand. At the same time, current market rents are not generally high enough to support unassisted market rate development, much less affordable housing development. Given these truths, the most effective method for creating new affordable residential housing is through capital subsidy while simultaneously ensuring we don't restrict supply by preventing new market rate units from being constructed.

Residential real estate in Cincinnati is challenged by high land costs, rising construction costs, relatively low rents, and a regional market with more affordable options available for renters and homebuyers. In order to incentivize the creation of new affordable units, the Administration currently utilizes cash subsidy paired with property tax abatements. For market-rate projects, the Administration primarily recommends only tax increment to market-rate development projects. This preserves very limited cash and direct subsidy for affordable projects.

To comprehensively address the issue of expanding affordable housing, these recommendations are further grouped into two categories

- (1) Programs to help deliver <u>new</u> affordable housing units, and
- (2) Programs to <u>enhance</u> affordability in the market more broadly.

Following the sections on affordable housing are a collection of recommendations regarding the local job creation, inclusion, displacement, and eviction prevention.

NEW AFFORDABLE HOUSING

Recommendation: **Actively pursue Low Income Housing Tax Credits (LIHTC)**

Description:

The City is presently reactive to developer initiated LIHTC project proposals and is asked to get involved after a developer has secured real estate and is preparing to apply for LIHTC. To move to an active role the City could fund the acquisition of strategic sites and select qualified developers to develop these sites on the condition they pursue LIHTC or provide a minimum number or percentage of affordable units.

Implementation:

City Council must appropriate funding for the express purpose of affordable housing site acquisition.

Next, DCED would work with neighborhood CDC partners as well as other entities, including LISC, developers, and the Port Authority to procure development sites. DCED and its neighborhood partners would place the property out to RFP with a focus on highest impact opportunities. This solution would still depend on developer interest and risk tolerance to eventually result in the creation of units.

City Council can also direct the Administration to make available existing City-owned underutilized land, for proposals involving larger LIHTC projects. Since DCED's existing inventory of land does not contain many sites of significant scale, this may require use of property controlled by other City Departments (Cincinnati Parks, the Recreation Department, the Department of Transportation and Engineering, the Department of Public Services). This solution would still depend on developer interest and risk tolerance to eventually result in the creation of units.

Lastly, if new funding for property acquisition is not available and the Administration cannot find available property of sufficient scale, DCED can use existing staff to expand connections to out-ofmarket developers that have experience in LIHTC developments to recruit them to locate and privately secure sites in Cincinnati for LIHTC development.

In any scenario, the creation of new LIHTC units will depend on private real estate developers to understand the opportunities and risks of development in Cincinnati in order to leverage private dollars at risk and ultimately result in new investment.

Recommendation: **Educate Developers on Financing Alternatives**

Description:

DCED and the City Administration, through education and outreach, can encourage the development community to understand and consider utilizing financing tools that reward affordability, including requirements for affordability in exchange for favorable long-term financing options. This can be a zero-cost measure for the moderate incentivizing of affordable projects.

Implementation:
DCED can research and solicit information about additional financing tools, such as those available from the Federal Housing Administration, which require or incentivize affordability. DCED can compile available tools to make them available on our website, in promotional materials, and during the incentive negotiation and solicitation process.

Recommendation: **Continue to Obligate Short-Term Rental Receipts**

Description:
Short-term rentals receipts have recently been earmarked for affordable housing into the Affordable Housing Trust Fund.

Implementation:
Currently, DCED staff, using professional expertise and experience, provide comprehensive evaluation and underwriting of affordable housing projects through the Notice of Funding Availability. This occurs twice annually.

In order to put the new funding stream to work, City Council or the Administration can better define the timing, rules and policy directives for the expenditure and leverage of short-term rental receipts for affordable housing support and construction.

This source of funds, or a separate source, could be used, combined, or leveraged with the private sector to attract net new dollars from outside the region into affordable housing or related projects. Locally, LISC continues to work on stakeholder conversations and engages private philanthropy to pursue creative opportunities to leverage City resources.

Recommendation: **Measure and Lobby for Cliff Effect Changes**

Description:
One component of housing affordability includes working income. Under today's tax and policy environment, low-income working individuals and families experience a "cliff" effect, whereby those working individuals are taxed at a much higher rate for only marginal increases in income. This tax structure financially punishes individuals for small increases in income. At the same time the Supplemental Nutrition Assistance Program (SNAP) program, housing vouchers, and other public assistance programs, interact with these programs and compound uncertainty for lowincome families.

Implementation:
Further study of this effect with more specific local impacts is necessary.

City Council can bolster the City's position at the state and federal levels related to the tapering of support programs when incomes are raised ("Cliff" effect).

Recommendation: **Market Opportunity Zones for Affordable Housing**

Description:
The Federal tax Law passed by Congress in 2016 created Opportunity Zones. These designations, made available to States, allowed state and local governments to nominate and identify selected Census tracts that would receive favorable tax treatment for qualified investments in low-income census tracts. The State of Ohio has since designated Opportunity Zones within the boundaries of the City of Cincinnati.

One method for increasing affordable housing investment is to better leverage this new tax benefit for investors in multifamily housing. According to a white paper published by a multi-family housing consultant, projects utilizing Federal Housing Administration (FHA) mortgage insurance for properties located in Opportunity Zones may receive reduced application fees for certain affordable housing projects. HUD may also attempt to speed processing of affordable housing applications in Opportunity Zones.

According to data from the same white paper, early signs indicate high utilization, up to 75%, of Opportunity Zones projects are focused on multifamily residential development. Of those investments, 40% have a focus on affordable housing. Unfortunately, because of the structure of the Opportunity Zone incentive as a private tax benefit, local governments are not always aware of when Opportunity Zones are being utilized.

Implementation:
Utilize Opportunity Zones when possible and when the City is affirmatively made aware of their use, paired with newer State level incentives, to leverage these tools for affordable housing investments.

The City can to provide priority or preference in other incentives for affordable housing projects in Opportunity Zones. This could include increased property tax incentives, selected fee reductions, expedited permitting for affordable housing projects in order to better align with LIHTC and affordability timelines, favorable incentive terms, or priority for award via the Ohio Housing Finance Agency's relatively new TAP Credit program.

Lastly, the City can work with nonprofits to better attract capital from funds backed by socialimpact investors, such as the Kresge Foundation, whose participation requires investment in affordable housing and other community benefit projects.

ENHANCING AFFORDABILITY

In addition to facilitating and incentivizing the creation of new affordable units, the City Administration seeks to increase the overall supply of housing in Cincinnati. This approach mirrors that of successfully growing metropolitan peer regions, including Minneapolis.

Increasing our supply of housing will require addressing existing barriers to reinvestment. Increasing the ease and certainty of market-rate and multi-family development in Cincinnati is budget neutral. It also frees up scarce resources to be utilized for new affordable housing projects while making a material difference in housing availability and affordability for all populations, including low-income residents.

The following recommendations seek to reduce development uncertainty, reduce bureaucratic barriers to new construction, reduce associated costs of new construction housing, and increase the number of units constructed in the City.

Recommendation: **Remove Barriers to Increased Housing Supply**

Description:

Regulatory and Institutional barriers result in overall increased development costs and high barriers to project completion. This results in fewer units being constructed, and more expensive rents to support increased project debt. Removing these barriers by removing artificial limitations on density will increase Cincinnati's housing supply and keep rents affordable.

These transactional costs and barriers take several forms. They include arbitrary limitations on density, limitations on heights, requirements for setbacks, strict physical requirements, and tight restrictions on use. Together, these restrictions prevent developers from building more units and are especially punitive in and near neighborhood business districts which are already located along mixed-use corridors with relatively close access to public transportation and built-in demand drivers for new density.

Implementation:

City Council can direct the Administration to take proactive measures to modify zoning regulations and reduce barriers to new residential and mixed-use development.

In Over-the-Rhine and the CBD, density regulations are actively preventing projects from gaining approval. This pushes developers to either build fewer units at higher prices, or to abandon projects altogether, leaving property vacant and blighted. To prevent these outcomes, Council could direct the administration to remove density regulations for development in Over-the-Rhine and the CBD. Density limitations are already functionally in effect where building cost prevents higher buildings or

in historic districts where limits on height and massing already provide physical certainty necessary to maintain the historic fabric.

Outside of historic districts, neighborhood business districts could be targeted for density waivers to achieve higher density and increased affordability in walkable areas and areas near highervolume bus lines.

A third option for City Council is the consideration or addition of Accessory Dwelling Units (ADUs) to the zoning code. ADUs are either attached to a primary residence (such as above a garage or a basement unit) or an independent carriage house. These small infill developments could allow existing homeowners or property owners to build secondary housing units on existing lots, increasing density. These new units introduce flexibility into the zoning code and can house family members, provide rental income to homeowners, or serve as home offices. This addition to the zoning code could be piloted to focus first on neighborhoods who opt-in or express early support.

While the City has many vacant or underutilized lots, it is nonetheless difficult to construct new housing or add additional housing to those lots. Making it possible to quickly, and with minimal bureaucratic approval, to by-right construct new small units on these parcels increases density and prevents existing natural occurring affordable housing from being purchased for the purpose of displacing existing residents. In Cincinnati, local are already in our market and ready to construct such homes, but they are constrained by zoning laws.

Lastly, lowering barriers to increased housing supply could have the additional benefit of better incentivizing smaller, first time, and/or minority developers to tackle their first project or more effectively move up from a smaller project to a larger project typology.

Recommendation: **Leverage External Organizations for Data Insights**

Description:
Making good policy decisions on topics related to housing will at times require data about Cincinnati's housing market that does not currently exist in easily accessible formats.

Implementation:
City Council can request assistance from area public and provide universities to dedicate student research and studio time toward the creation of an annual or quarterly recurring naturally occurring affordable housing report. This information could be useful for policy makers to understand where naturally occurring affordable housing exists in Cincinnati and how that data set overlaps with existing information about neighborhood quality of life and livability conditions (such as blight, code violations, transportation, etc.) and provide measurable data about displacement, eviction, unit creation and other matters of neighborhood change.

Recommendation: **Continue to Remove Parking Minimums**

Description:
In 2018, City Council removed parking minimums for all development typologies in Over the Rhine, Downtown, and Pendleton. This change allows development projects to move forward at a lower cost, therefore increasing affordability and density. It has also made possible the renovation of previously undevelopable urban buildings which could never have been redeveloped without variances of the parking requirements. The existing parking requirement do not result in the creation of net new parking, and instead only serve to throttle or restrict new housing and other forms of commercial development.

Implementation:
City Council can proactively recommend and direct the Administration to expand the Urban Parking Overlay District to include more locations, first focusing on neighborhood business districts, and expanding to other parts of the City or the City as a whole.

Recommendation: **Increase By-right Property Tax Abatements for Affordable Housing Projects**

Description:
Under current Council Policy, development projects that achieve certain environmental certifications result in higher property tax incentives subject to fewer underwriting conditions. Amending these rules to include Affordable Housing projects in the list of applicable conditions that do not require underwriting by DCED would effectively increase available CRA incentives for affordable housing projects to the maximum allowed under State Law.

Implementation:
City Council can amend the existing CRA ordinance directing the Administration to include Affordable Housing projects in the list of applicable conditions that do not require underwriting by DCED.

Recommendation: **Recategorize Multi-family Housing Under the Residential CRA Program**

Description:
State Law allows City Council to set the regulations for utilizing this policy tool. Currently, Council ordinance stipulates that larger, multi-family developments are treated as “Commercial”, and therefore subject to higher scrutiny and higher incentive uncertainty. State Law allows any residential development, including large multi-family projects, to be treated as “Residential”, meaning they would be eligible for Council’s net 100% tax abatement structure. This policy change could result in more dense residential development, increasing the number of units constructed and increasing

housing supply. It could also increase returns to investors willing to utilize LIHTCs or other affordable housing financing structures.

Implementation:
City Council can amend the existing Council ordinance governing the CRA program by recategorizing multi-family housing projects with any number of residential units to be governed by the "Residential" CRA program.

Recommendation: **Loan Forgiveness**

Description:
As part of the regular compliance processes for management of federal funds, DCED occasionally receives requests for the forgiveness of debt or other financing obligations for aging projects that previously utilized federal funds. DCED, on a case by case basis, currently reviews these requests and strategically makes recommendations to the City Manager for the forgiveness of these debts. This practice could be formalized in a manner that focuses on retention of affordable units, when possible.

Implementation:
DCED can create a formal internal policy for evaluating and utilizing discretion to best utilize this leverage and ensure existing affordable housing projects remain affordable in exchange for the forgiveness of debt.

LOCAL JOB CREATION, INCLUSION

Recommendation: **Increase Incentive Offer Beyond Minimum Necessary Determined by Project Underwriting for Additional Project Benefits**

Description:
While not connected to project financial feasibility, there are all additional project criteria that developments can pursue, beyond what would normally occur that Council might consider beneficial. These include local job creation, minority and local, small business inclusion, and community engagement. Developers could include these additional criteria into their projects in order to receive additional financial incentives beyond what would otherwise be required. These criteria would justify City Council's rationale for providing more incentive than minimally required for the project to move forward. For these considerations, DCED would need to establish practices and policies to determine the receiving entity was functioning as the project delivery partners as opposed to a pass-through entity, only.

Implementation:

Council could revise incentive policies to increase incentive offers beyond the typical financial need analysis that meet one of the following criteria:

- Local Job Creation: While most development groups are not equipped to run job training or apprenticeship programs as a part of their project (or the project is not of sufficient scale for this to be feasible), development groups that propose construction job training for local residents or apprenticeships for the project could be considered for additional incentive consideration.

- Minority and local, small business inclusion: While many development groups already include City certified small, minority and women business enterprises in their bid invitations and select them through competitive processes, binding commitments to achieve the City's inclusion goals for small minority and women business enterprises could be considered for additional incentive.

- Community Engagement: While all development projects of significant scale presently go through a public engagement process through the zoning process or as a best practice prior to consideration of an economic incentive, development team commitments to solve unrelated community issues (deteriorated sidewalks, graffiti, nuisance properties, other community benefit) as a part of their investment in the community can also be viewed favorably and could be considered for additional incentive.

Recommendation: **Expand Cohort of Local Minority Development Professionals**

Description:
Expanding Cincinnati's and accelerating economic development efforts could benefit from an expansion of the number of willing, experienced, and capable development entities working inside City limits. DCED has seen an increase the number of non-Cincinnati-based development companies working in or pursuing projects in Cincinnati. In addition to these new-to-Cincinnati companies, there are opportunities to further expand the number of local minority development entities participating in real estate development projects.

Implementation:
Different municipalities are pursuing similar activities including training, mentorship by experienced local real estate professionals, and connections to project financing partners.

Here in Cincinnati, the Urban Land Institute has partnered with LISC Greater Cincinnati to launch a real estate supported program designed to mentor and educate Cincinnati's next generation of real estate professionals. The first year for the program, entitled the Real Estate Accelerator Lab, will be 2019. Because the program is just getting started, the results and participants are still unknown.

Another option is a program similar to efforts in the City of Detroit. That two-year old program, entitled the Equitable Development Initiative, creates cohorts of minority real estate development professionals, pairing them with experienced and established mentors. The key program focus is minority developers seeking to development multi-family rental projects.

Either of these approaches are options that City Council could consider establishing or supporting to both expand the number of development professionals in the City, while helping to ensure that our development professionals are reflective of Cincinnati's diversity. City Council could directly allocate funds for this effort or support existing ongoing efforts of ULI and others through technical assistance, provision of meeting and training spaces, or other activities.

DISPLACEMENT AND EVICTION PREVENTION

Recommendation: **Housing Court**

Description:
In addition to beneficial outcomes for residents with limited incomes who are affected by eviction actions and housing code issues, a Housing Court with appropriate focus and expertise would address structural process issues with nuisance issues, code violations, blight, and crime.

The Administration finds that because housing matters are complicated and specialized, blighted and vacant properties frequently get caught in cycles of sale, purchase, decay, and code violation. A Housing Court with expertise and knowledge could interrupt this cycle and move properties more efficiently into productive use as housing or other neighborhood serving land uses. Further, such a Court would serve to better safeguard the rights of tenants and low-income property owners. Lastly, a Housing Court could increase rates of nuisance abatement by property owners and hasten City efforts to respond to urgent code violations. Other municipalities in Ohio, including Columbus and Cleveland, have found success with similar efforts.

Implementation:
Mayor Cranley, Councilmember Landsman, and the City Administration have to date been working to advance this work. While City Council does not have authority to establish such a Court, Council can support its creation.

Recommendation: **Reduce Barriers to Homeownership and Mortgage Lending**

Description:
The 2008 economic recession altered the housing market and had a long-term impact on homeownership rates across the United States. Nonetheless, owning a home and home equity is a critical component of wealth building for families and for reducing wealth disparities in Cincinnati.

Focus areas for improving this metric in Cincinnati could include down payment assistance, access to credit (including high debt-to-income borrowers), and other issues yet-to-be explored solutions for improving homeownership for low-income homeowners. Barriers to lending can perpetuate concentrated poverty, suppress opportunities for wealth accumulation and generational wealth transfer, and negatively impact housing security for residents.

Implementation:
City Council can direct the Administration to explore a variety of measures to make progress on reducing barriers to homeownership.

City Council and the and the Community Development Advisory Board can direct DCED to continue to leverage or expand CDBG allocations for the American Dream Downpayment Initiative. This program, currently managed by DCED, provides downpayment assistance funds for eligible lowincome first-time homebuyers. Currently, DCED averages assistance grants for approximately 30 families every year. In addition, DCED can explore the potential benefits of better aligning mortgage lenders with the City's ADDI program to best maximize the odds of first-time homebuyers successfully closing on a home.

In addition to assistance with the purchasing process, other programs or services may reduce operational and maintenance expenses for income-qualified homeowners. Other applications and technology solutions for homeowners are available, including financial technology applications that reduce barriers to managing a duplex or rooms for rent in ways that help homeowners reduce or offset expenses.

Lastly, for renters that may not yet qualify for a mortgage, there are tools to create paths to the opportunity. Lease purchase agreements, also known as rent-to-own, can allow families to rent in homes by signing agreements with firms that purchase the home and lease to a family. At the end of the lease, the family has the right to purchase the home at a predetermined price. In addition, the City or other qualified partners, could seek to create and implement an employer assisted housing initiative to stretch any employee's home purchasing dollars at no cost to the employer.