Cincinnati Incentives Policy Review: Final Briefing to Budget and Finance Committee

HR&A Advisors

June, 2016

Agenda

Study Introduction

Study Approach

Recommendations

Next Steps and Discussion

Study Introduction

Study Overview

Task	*Completion Date*
Comprehensive Study	June 2016
Deal Evaluation Template	Est. August 2016
Program Policy Documentation	Est. September 2016
Recommendation Implementation*	Est. December 2016

**Implementation will occur in the next 3-6 months with a target completion date of December 2016.*

Steering Committee Participants

City of Cincinnati

Kevin Flynn (Council Member)

David Mann (Vice Mayor)

Private Development Community

Mario San Marco (Eagle Realty Group)

Steve Smith (Model Group)

Michael Moran (CBRE)

Business Community

Jim McGraw (KMK)

Laurence F. Jones, III (Stay Focused Cons.)

Rita Williams (Kroger)

Keith Faber (P&G)

Academic & Nonprofit Community

Dr. Michael Jones (UC Economics Center)

Adam Geltner (3CDC)

Hope Wilson (Working in Neighborhoods)

The City and Committee defined three key objectives for HR&A's study.

Incentive Portfolio Review

Assess Effectiveness & Alignment

Consider Adaptation

Provide a Strategic Framework

Two core goals have motivated the City's policy during Cincinnati's recent revitalization.

Population Growth

Enhance quality of life to attract and retain residents

Employment Growth

Enhance business environment to attract and retain jobs

HR&A was also asked to review Cincinnati's incentive toolkit with an eye to fiscal cost to the City.

Tool	*Implications for City Finances*
Property Tax Abatement	• Due to $29M property tax cap, utilization of **CRA is revenue-neutral** and has limited direct cost to the City. • Recipients are able to **leverage** the value of abatements from **other taxing jurisdictions.**
Earnings Tax Abatement	• City directly **foregoes earnings tax revenue** as part of deals.
Direct Loan	• Majority of **housing funds are federal dollars,** disbursed by City.

HR&A undertook a four-phase scope of work to meet study objectives.

1. Project kickoff & economic context
2. Peer city bench-marking
3. Incentive program & deal analysis
4. Develop recommendations

HR&A first assessed the alignment of Cincinnati's incentive portfolio with its broader economic development goals.

1. Project kickoff & economic context

2. Peer city bench-marking

3. Incentive program & deal analysis

4. Develop recommendations

Factors Supporting Population & Job Growth

1. *Diversification of housing stock*
2. *Targeted industry growth*
3. *Innovation and entrepreneurship*
4. *Place-based development in target areas*
5. *Workforce development*
6. *Enhancement of the built environment*

To gain insight into effective incentive deployment, HR&A conducted a comprehensive benchmarking assessment of five peer cities.

1. Project kickoff & economic context
2. **Peer city bench-marking**
3. Incentive program & deal analysis
4. Develop recommendations

Major emphasis
Minor emphasis
Not used

	TIF	Prop. Tax Abate. or PILOT	Earnings Tax Abate.	Business Loans or Grants	Housing Loans or Grants
Cincinnati	Major emphasis	Major emphasis	Major emphasis	Minor emphasis	Major emphasis
Cleveland	Major emphasis	Minor emphasis	Major emphasis	Major emphasis	Major emphasis
Louisville	Major emphasis	Minor emphasis	Major emphasis	Major emphasis	Major emphasis
Nashville	Major emphasis	Major emphasis	Not used	Major emphasis	Major emphasis
Kansas City	Major emphasis	Major emphasis	Minor emphasis	Minor emphasis	Major emphasis
Richmond	Minor emphasis	Major emphasis	Not used	Major emphasis	Major emphasis

HR&A then undertook a detailed cost/benefit analysis of four priority programs.

1. Project kickoff & economic context
2. Peer city bench-marking
3. **Incentive program & deal analysis**
4. Develop recommendations

1. Commercial CRA

(e.g., Forest Square Apartments or Wooster Park)

2. Jobs Creation Tax Credit

(e.g., Omnicare or Kao USA)

3. Homeownership & Rental Development Loans

(e.g., Abigail Apartments or Woodburne Pointe)

4. Project TIF

(e.g., Queen City Square or Keystone Parke I)

HR&A recommends five key changes to enhance the effectiveness of Cincinnati's incentives.

1. Project kickoff & economic context

2. Peer city bench-marking

3. Incentive program & deal analysis

4. Develop recommendations

1. Deploy a more **streamlined** and **strategic deal evaluation process.**

2. **Leverage Commercial CRA more effectively** for place-based investment and job growth.

3. **Refine use of JCTC to maximize return** on investment for the City.

4. Continue to **innovate new mechanisms to reinvest property tax revenue** in Cincinnati.

5. Tailor use of programs generally to **meet specific economic objectives.**

Recommendation 1:
Deploy a more streamlined & strategic deal evaluation process

Deal Evaluation Process Recommendations

1. **Develop standard evaluation metrics for all programs** to consistently assess and track deals' expected costs and benefits to the City, as well as overall program performance over time.

2. **Convene a task force to reach alignment on core objectives related to "soft factors"** such as blight reduction, targeted neighborhood revitalization, and quality of life enhancements, to be memorialized in a "values matrix."

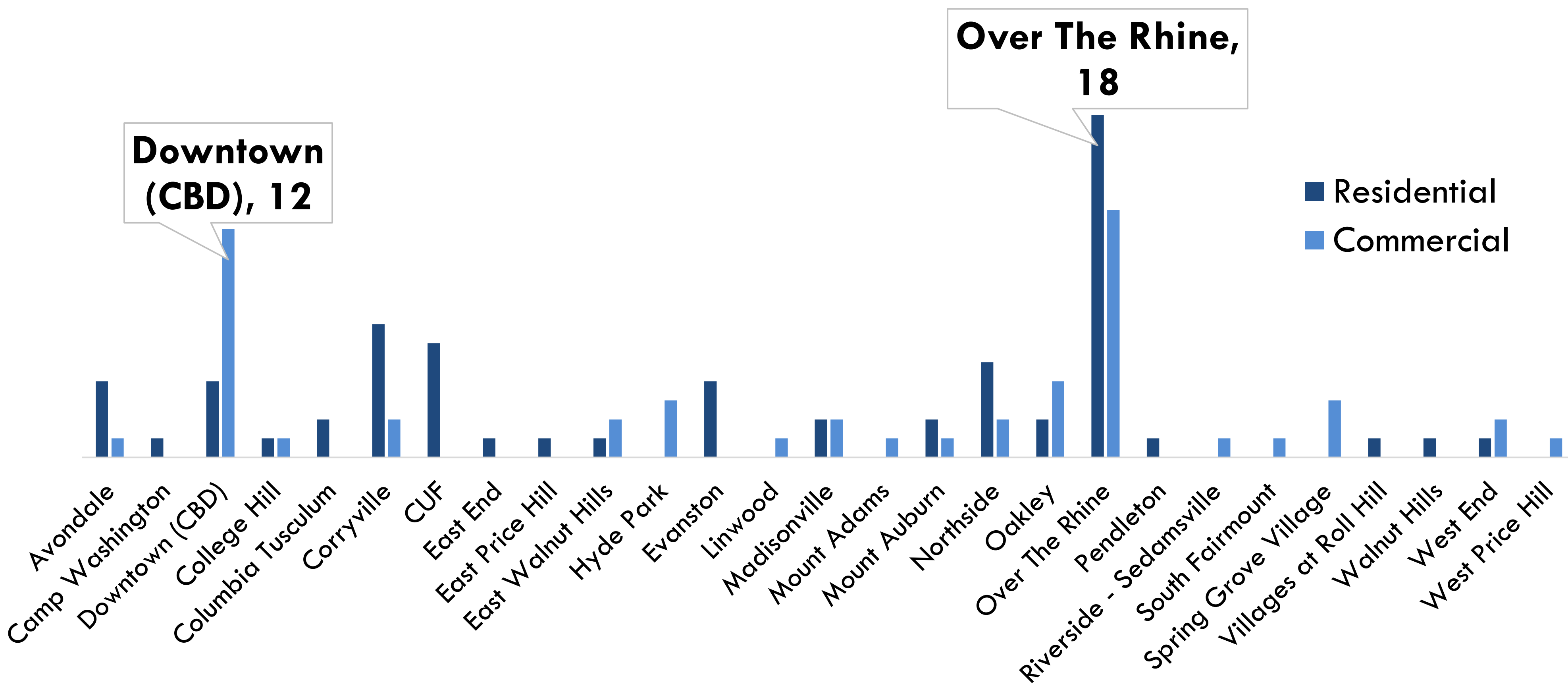
3. **Produce a template for a one-page "deal sheet" for City Council** that reports project performance in terms of standardized evaluation metrics and qualitative goals to facilitate deal review.

Recommendation 2:
Leverage Commercial CRA more effectively for place-based investment and job growth

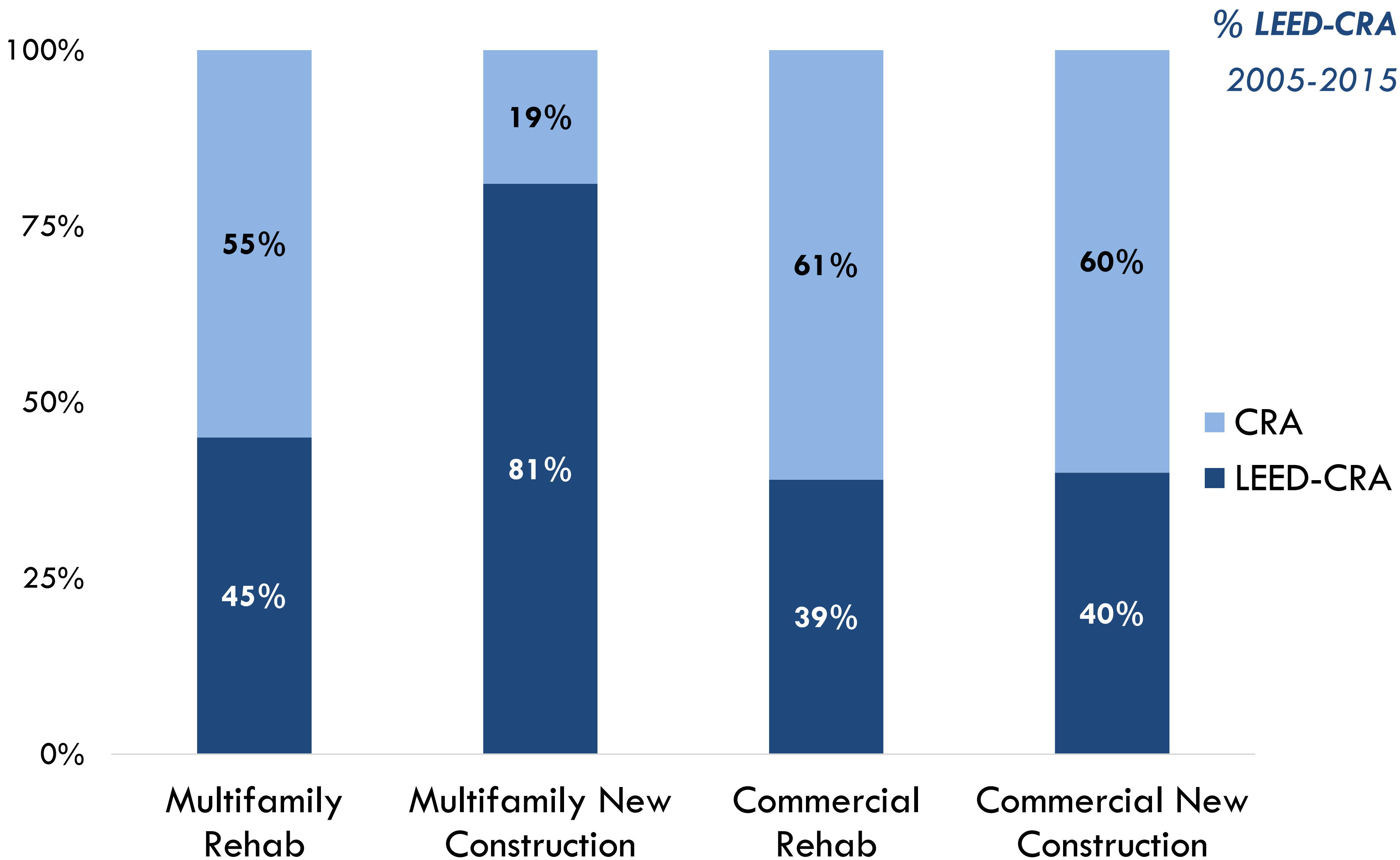
Commercial CRA: CRA has been an effective tool in supporting neighborhood revitalization in neighborhoods like Downtown and Over-the-Rhine.

Neighborhoods of CRA Recipient Projects

2005-2015



Commercial CRA: CRA has also been effective in driving achievement of specific public policy goals, such as the success of its LEED program in new construction.

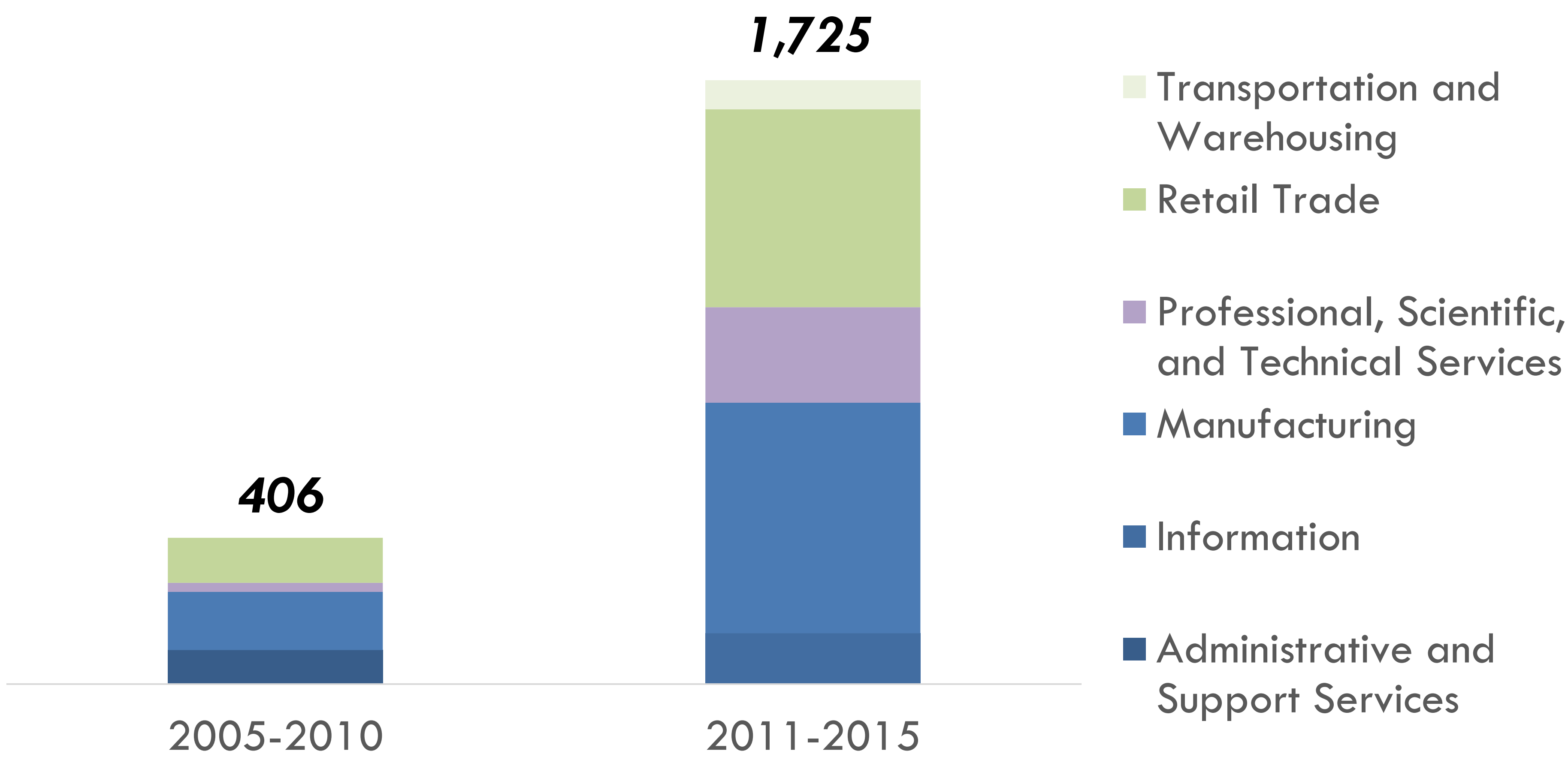


Commercial CRA: Recommendations

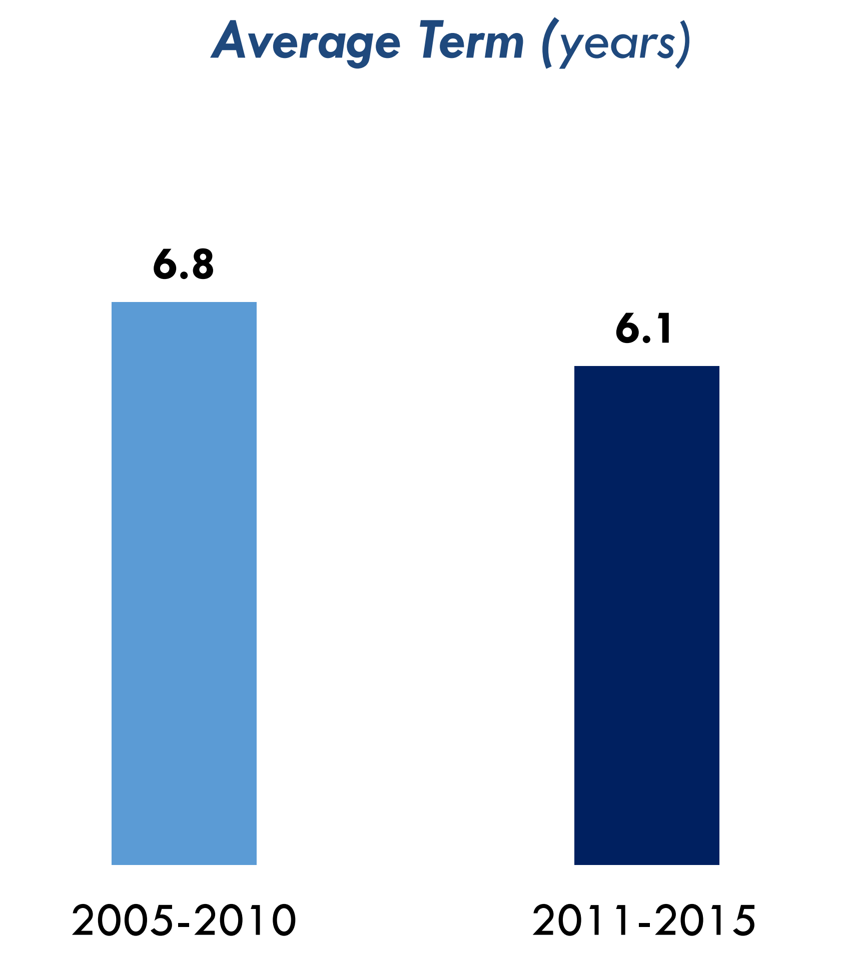
1. **Consider options to geographically target use of CRA:**
    - Evaluate real estate economics in different neighborhoods;
    - Extend the incentive length in specific neighborhoods to address feasibility gaps and catalyze development.
2. **Building on the success of the LEED-CRA program, consider how to use the program to support a range of desired policy objectives,** such as historic rehabilitation and middle-income housing creation.
3. **Consider opportunities to formalize job creation requirements** for commercial projects.
4. **While CRA deals have limited direct cost, the City should establish a long-term policy for use of CRA,** balancing additional service demands generated and future rate reductions for the existing tax base.

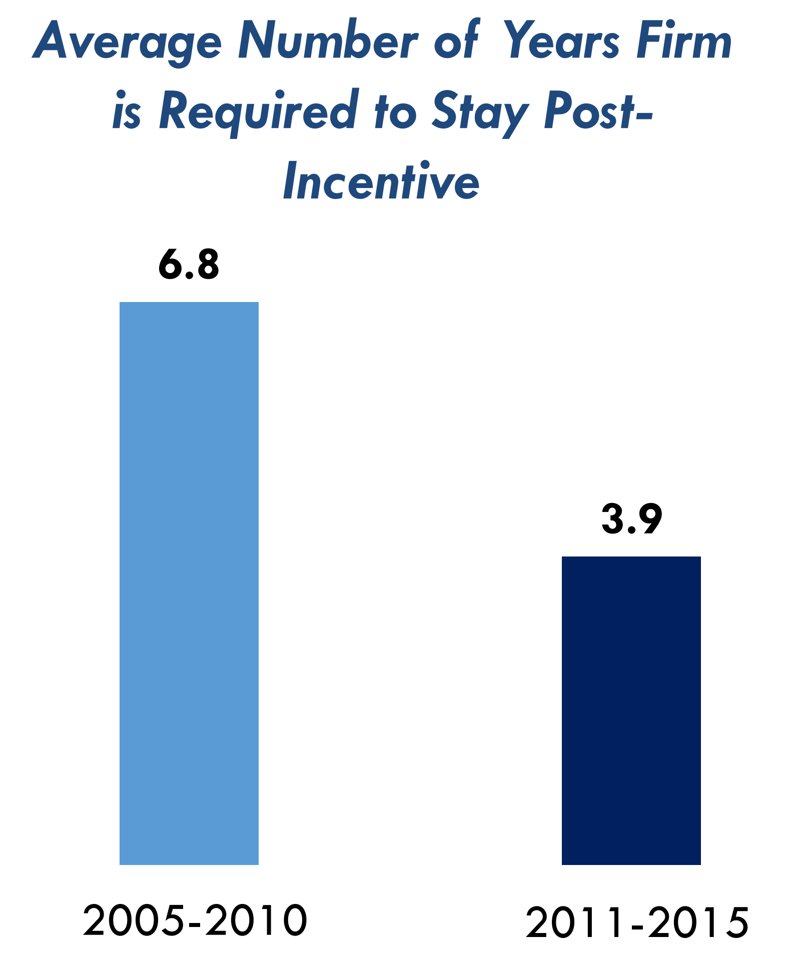
Recommendation 3:
Refine use of JCTC to maximize ROI for the City

JCTC: JCTC plays an important role in job creation in Cincinnati, creating over 2,000 deals over the last 10 years and significantly more per deal on average than CRA.



JCTC: Average term has declined, but so has the required retention period.

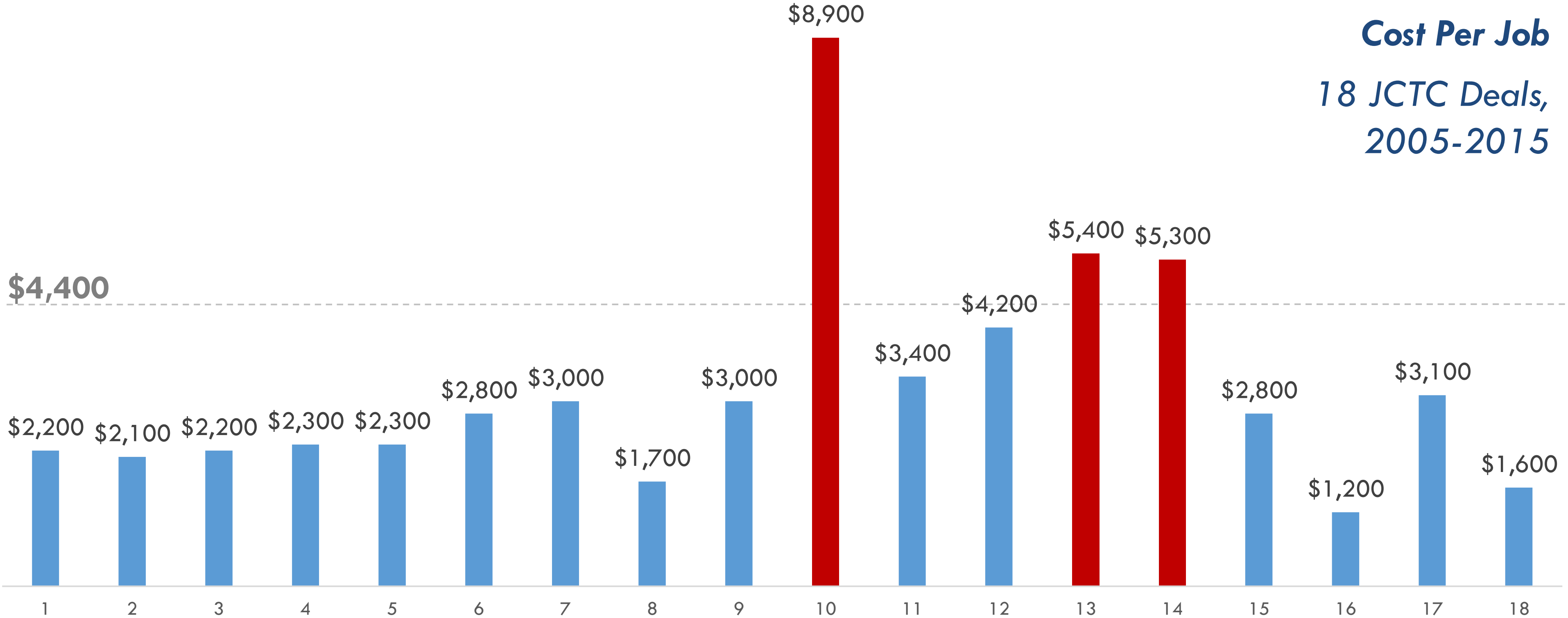




JCTC: Cost per job ranges widely on individual deals, from $1,200 to $8,900.

For 18 JCTC Deals, the average cost per job (undiscounted):

$4,400



JCTC: For every dollar in earnings tax the City receives from a JCTC deal, it forgoes 52 cents.

City Fiscal Costs	
Earnings Tax Foregone	**$9.5 M**

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City Fiscal Benefits	
Earnings Tax: Ongoing	**$17.9 M**
Earnings Tax: One-time	**$0.3 M**
Property Tax	**$0.0 M**

Benefit Ratio	**52%**

Assuming the firm or developer would not have created the new jobs without the deal, the City receives a net benefit of 48 cents that it would not have received.

JCTC: Recommendations

1. **Continue to utilize JCTC, as it plays a crucial role** in attracting and retaining major employment, but do so judiciously to mitigate impacts to the General Fund. Where possible, utilize CRA.

2. **Understand the most effective levers within deals** to maximize the benefit to the City, such as extending the period of time that the firm is required to stay in Cincinnati after the incentive ends.

3. **Limit use of amendments to extend the incentive term** if firms create more jobs and/or capital investments than originally planned.

4. **For firms that receive both a CRA and a JCTC, consider emphasizing the CRA component** of the deal to minimize cost to the City.

Recommendation 4:
Continue to innovate new mechanisms to reinvest in Cincinnati

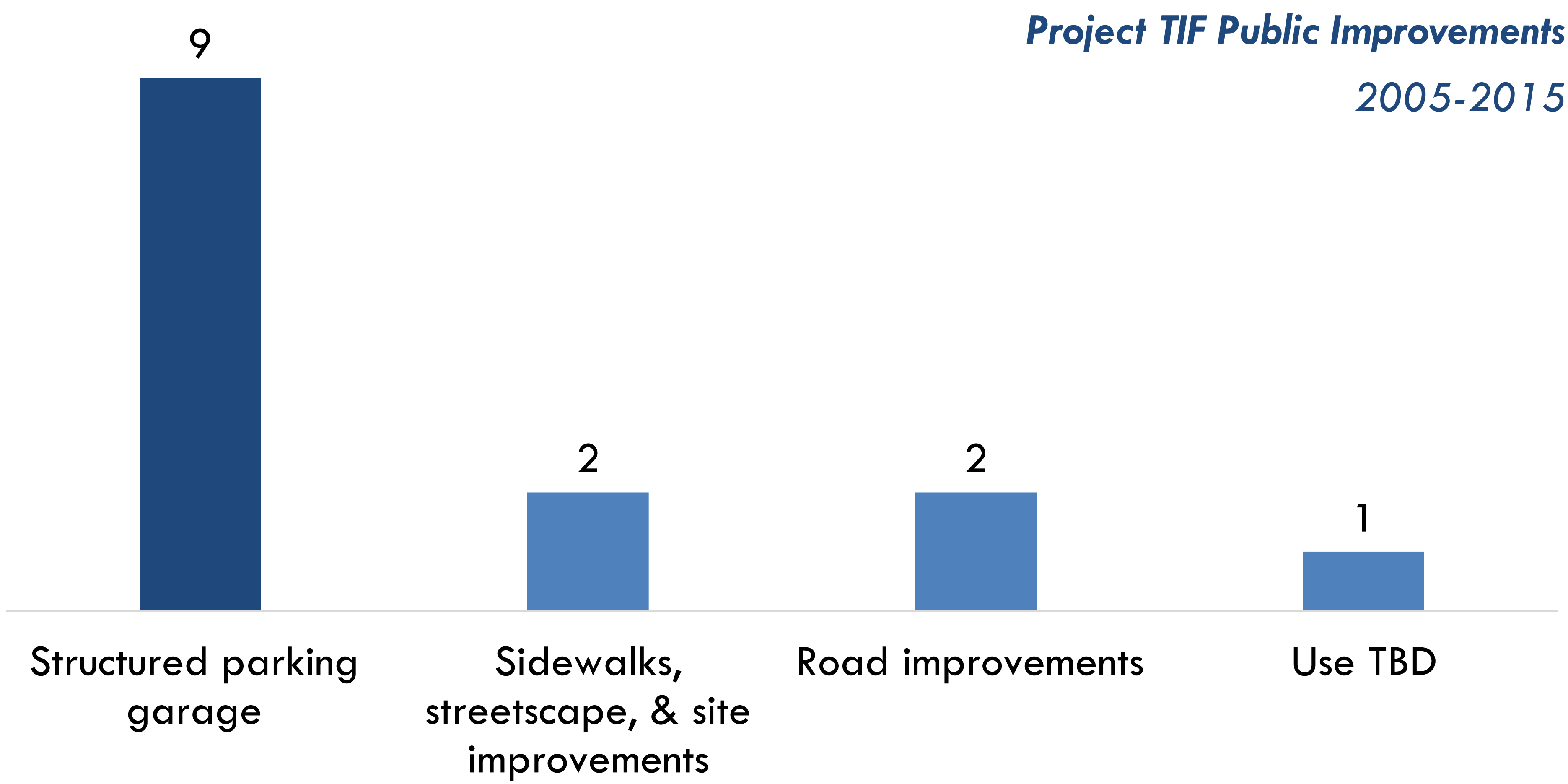
VTICA: Expanding the use of VTICA-like instruments offers an opportunity to recapture property tax revenues for reinvestment in infrastructure and other catalyst projects.

- **VTICA reduces the total property tax abatements received** by property owners in Downtown and Over-the-Rhine by **7.5%** to **15%** in order to fund streetcar operations.

- **To date, VTICA has been applied to 27 deals**, with these projects bringing in a total of **$694,000** annually, or **$15.2M** over the lifetime of the deals, which would otherwise not have been captured for public benefit.

- In markets where the developer can bear the additional cost, VITCA offers an opportunity to derive additional public benefit.

Project TIF: Project TIF has facilitated significant private development in Cincinnati, and have predominantly been used for construction of structured parking.



TIF revenues must be used to fund improvements with a public benefit. They have been primarily used to fund parking improvements, although a broad range of other projects is possible.

Reinvesting in Cincinnati: Recommendations

1. **Explore opportunities to recapture value from CRA deals by employing VTICA-like instruments** to direct funds for specific improvements in appropriate submarkets.

2. **Explore opportunities to expand the type of public improvements supported by Project TIF**, to potentially include pedestrian, bicycle, and transit infrastructure, as well as urban realm improvements.

Recommendation 5:
Tailor use of programs generally to meet specific economic objectives

The incentive portfolio offers an opportunity to holistically address the City's economic development objectives.

Objectives	Recommendations
1. Housing stock diversification	Build on the success of the City's existing housing programs to diversify the housing products delivered in the City.
2. Targeted industry growth	Consider a formal cluster-focused strategy for incentive deployment, leveraging **JCTC, CRA,** and **Project TIF.**
3. Innovation & entrepreneurship	Place greater emphasis on loan and grant programs that support small businesses and innovative start-ups.
4. Place-based development	Geographically target strategic combinations of incentives, especially **CRA** and **Housing Loans.**
5. Workforce development	Consider job creation requirements that emphasize jobs at all skill levels, including **CRA, JCTC,** and **Project TIF.**
5. Enhancement of the built environment	Leverage existing models such as **VTICA** and **Project TIF** to fund public realm improvements and enhance place-making.

Next Steps and Discussion

Next Steps

- Present, discuss, and receive feedback on study findings
- Collaborate with Administration, City Council, and stakeholders to evaluate and prioritize recommendations
- Establish a working group to assess criteria for implementation
- Implement recommendations, to include new incentive tools, policies, place-based priority areas, and target industries
- Monitor results related to recommendations

Discussion

Appendix

Overview of Cincinnati's Commercial CRA Program

Goal: Support the creation of new and renovated multifamily housing units and office, retail, industrial, and mixed-use space to attract and retain residents and firms.

Mechanism	Property tax abatement
Maximum Term & Rate	• 100% property tax abatement of incremental value • PILOT of 25% is paid to Cincinnati Public Schools • 8-15 year term
Job Creation	Not required unless under terms of agreement
Project Investment	$40,000 minimum investment

Commercial CRA Average Deal Profile

"Pure" CRA Deals, 2005-2015

Deal Terms	**Multifamily**	**Other Commercial**
Total number of deals closed	65	53
Average term	12.1 years	12.4 years

Projected Job Creation & Investment		
Average number of FT jobs created per deal	**12.5**	**41.7**
Average wage of created jobs	$22,700	$52,300
Average project investment per deal	**$9,482,300**	**$4,885,500**

Projected household creation		
Average number of housing units created	74	0
Average household wage	$52,200	NA

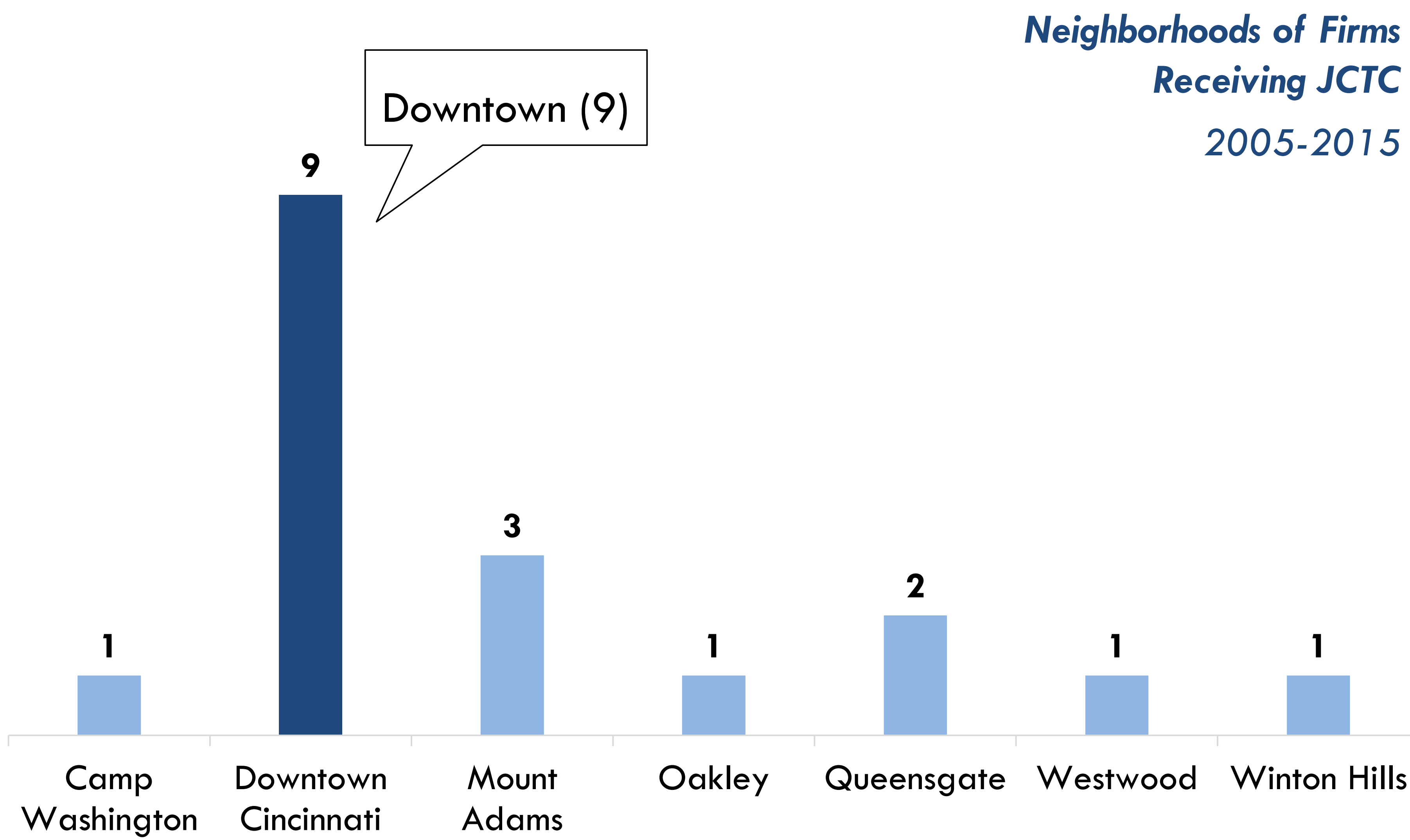
Incentives Granted		
Average total deal size or CRA incentive granted (undiscounted)	$444,000	$264,100

Overview of Cincinnati's Job Creation Tax Credit Program

Goal: Encourage firms to expand in or relocate to Cincinnati and promote job creation and capital investment.

Mechanism	Non-refundable tax credit
Maximum Term & Rate	Discretionary
Job Creation	> 25 net new jobs or 10 high-wage jobs, within three years
Payroll	• Net new jobs: > 200% of minimum wage • High-wage jobs must pay $100,000+
Project Investment	No required investment if not specified in agreement
Employee Retention Period	Firms must maintain committed number of employees for Full Tax Credit Term plus additional increment

JCTC: Half of deals attracted new firms or supported expansion of existing firms in Downtown, showing its attractiveness as a center for business.



JCTC Average Deal Profile

"Pure" JCTC Deals, 2005-2015

Deal Terms

Total number of deals closed	18
Average tax credit rate applied	52%
Average term	6.3 years
Average length of time that firm is required to stay in Cincinnati post-incentive	4.7 years

Projected Job Creation & Investment

Average number of jobs created per deal	**118**
Average wage of created jobs	**$62,400**
Average project investment per deal	**$1,667,700**

Incentives Granted

Average total deal size or JCTC incentive granted (undiscounted)	**$519,400**

Combined JCTC-CRA Average Deal Profile

	Combined JCTC-CRAs	Pure JCTCs	Pure Other Comm. CRAs
Deal Terms			
Total number of deals closed	4	18	53
JCTC term and rate	8.3 / 49%	6.3 / 52%	N/A
CRA term	14.3	N/A	12.4
Projected Job Creation & Investment			
Average number of FT jobs created per deal	**251**	**118**	**42**
Average wage of created jobs	$52,900	$62,400	$52,300
Average project investment per deal	**$10,150,000**	**$1,667,700**	**$4,885,500**
Incentives Granted			
Average total deal size for combined incentive (undiscounted)	**$1,082,700**	**$519,400**	$264,100
Average cost to City per job (undiscounted)	**$4,300**	**$4,400**	**$0**

Combined JCTC-CRA Benefit Ratio

City Fiscal Costs	
Property Tax	$0M
Earnings Tax	$4.3 M

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City Fiscal Benefits	
Earnings Tax: Ongoing	$6.6 M
Earnings Tax: One-time	$0.3 M
Property Tax	$0 M

Benefit Ratio	**61%**

Homeownership and Rental Development Loans Overview

Goal: Support the production of new and renovated housing units, enable homeownership, and preserve and improve affordable housing.

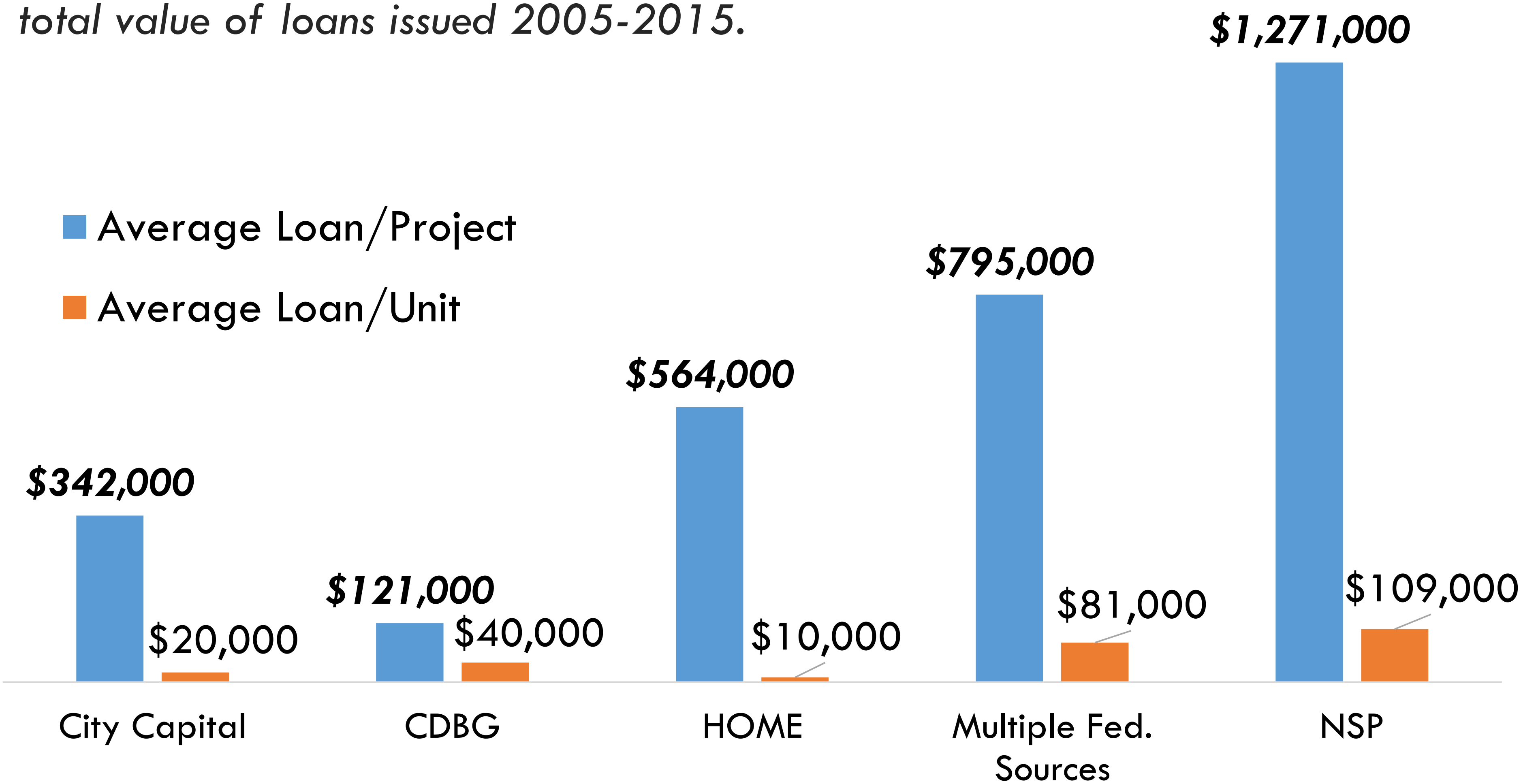
Mechanism	Direct loans, some are forgivable
Maximum Term & Rate	Variable, based on deal-by-deal underwriting
Project Investment	• *Mixed-income and affordable rental*: >10 units • *Homeownership & market-rate rental*: > 4 contiguous units
Affordability Requirements	• *City funds*: no mandatory income restriction requirements • *CDBG & HOME funds*: targeted to low- to moderate-income persons • *NSP funds:* reserved for rehab or redevelopment of foreclosed, abandoned, or vacant properties

Housing Loans: HOME funds have been used judiciously to subsidize the development of new units at a fraction of the cost of other sources.

__Federal funds__ account for ~__90%__ of the total value of loans issued 2005-2015.

Average Loan Per Project and Unit

2005-2015



Housing Loans: Average Loan Per Unit and City Gap Funding Percentage

	Total Projects	Total Units	Average Loan Amount Per Unit	City Gap Funding as Percentage of Total Devt. Cost
Rental				
Affordable	27	2,429	$12,200	12%
Market-Rate	3	115	$14,800	8%
All Rental	**31**	**2,578**	**$12,300**	**12%**
Homeownership				
Affordable	18	61	$49,900	42%
Market-Rate	6	21	$55,600	22%
All Homeownership	**25**	**86**	**$56,800**	**38%**

Project TIF Overview

***Goal*:** Enable projects that support community and economic development by helping them overcome the financing gap for public improvements.

Mechanism	TIF
Maximum Term & Rate	• 30 years • Developer pays a PILOT equal to 100% of taxes otherwise due, 25% is reserved for school district
Job Creation	Not required
Project Investment	Reserved for projects >$25 million
Employee Retention Period	Not required
Other Requirements	• 1.25 DSCR, 0% growth assumed in TIF revenues • Reserved for public benefit improvements that fit within existing urban renewal and/or blight remediation plans