

April 21, 2022

Mayor Justin Bibb and City Council President Blaine Griffin
City Hall
601 Lakeside Avenue
Cleveland, OH 44114

Dear Mayor Bibb and Council President Griffin:

As you review the city's tax abatement program in light of the need to renew it, we would like to provide you with additional perspective. Policy Matters Ohio has followed tax policy and the use of abatements for economic development for many years. We provided input with others for the 2020 tax abatement report and also joined with the Equitable Development Working Group in its recent survey on this topic.

We agree with your statement in the State of the City, Mayor Bibb, that we can no longer take a one-size-fits-all approach to economic development. Some areas of the city do not need tax abatement for development and allowing full abatement to take place there is an inappropriate use of scarce city resources – resources that are badly needed for public services.

The plain conclusion from the 2020 study was that abatements are increasingly concentrated in a small number of neighborhoods, most of which are already seeing higher prices and displacement pressure. As the report states (p. 49), "The use of the tax abatement has become more concentrated in a smaller set of 'high price, high pressure' neighborhoods; these places represent roughly 2% of the city's total block groups. Between 2004 and 2008 only 7% of abatements were issued for parcels in high price, high pressure areas, while between 2014 and 2018, 22% of abatements were issued for parcels in high price, high pressure areas. The increasing concentration of tax abatements in a very limited number of higher priced and higher-pressure housing markets stands in opposition to the expressed interests of residents and institutional stakeholders who participated in the study, that the abatement serve as a tool to incentivize reinvestment and redevelopment across Cleveland."

Abatement policy should not exacerbate inequality. The broad challenge facing most of Cleveland's neighborhoods should not prevent a clear demarcation of areas where abatement is reduced or eliminated; indeed, it's a reason do just that. There needs to be very significant differentiation between neighborhoods in the availability of full tax abatement, or anything approaching it, especially for multi-family developments. Full tax abatement, both in percentage and length of the abatement, should be reserved for distressed neighborhoods. Moreover, that should begin now, or within months of when legislation is effective, for new development. There is no reason to delay.

We support a "but for" requirement for market-rate multi-family projects, where developers must demonstrate why the projects would not occur but for an abatement. To make this requirement real, developers must provide financial statements that document the need for such subsidies. They should continue to show the need after the projects are completed, and the abatements should be clawed back if they deliver outsized returns.

Though enforcement of “but for” rules is not easy, they illustrate that major abatements are not entitlements. Exceptions could be allowed for projects that provide significant affordable units. It is critical that affordability is defined so that a large majority of the families living in the city are covered.

City review of tax abatement policy should include a racial equity component. Recipients of abatements should be required to report demographics of those living in abated properties (this includes the owners of multi-family projects). That way, the city will be able to track who is benefiting from abatements and adjust policy over time accordingly.

Financial impact on the school district should also be considered. For some abatements In Columbus, a portion of school taxes is paid on an increasing basis during the abatement.

We know that you will be studying these issues closely, and look forward to talking further with you about them. Thanks very much for your consideration.

Sincerely,

Zach Schiller
Research director

Hannah Halbert
Executive director

cc Councilman Anthony Hairston

Director Alyssa Hernandez