

**Cleveland Heights  
Economic Development**



**To:** City Manager Tanisha Briley  
**From:** Economic Development Director Tim Boland  
**Subject:** Top of the Hill TIF Summary

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**TOP OF THE HILL ECONOMIC IMPACT AND TAX INCREMENT FINANCING INFORMATION**

The Top of the Hill project, located atop Cedar Hill (intersection of Euclid Heights Blvd. & Cedar Road), has now advanced through the project design and approval phase. Final plans for building and zoning approval have been submitted and are currently under review. Construction is slated to begin sometime during the 1st Quarter of 2020. As a highly visible property at the gateway between the Heights and University Circle, developing this property has been a long-time goal of the City.

Indianapolis-based Flaherty & Collins Properties, who was selected in 2017 as the development partner for this project after an extensive RFQ/RFP process, has an extensive development track record, completing more than \$2 billion in development projects since their founding in 1993, including mixed-use projects similar in scope to what is being envisioned for the Top of the Hill.

This estimated \$84 million project is anticipated to consist of approximately 261 market-rate luxury apartments, over 11,000 square feet of new first floor commercial space, close to 25,000 square feet of green space, and a structured parking garage containing 550 parking spaces, as well as additional surface parking throughout the development site. The project is expected to create over 90 permanent jobs, and almost 600 construction jobs when being built. Income tax revenues are projected at almost \$270,000 annually from the project, with an additional one-time influx of revenue from construction payroll of over \$685,000.

The City and the CHUH School District agreed in March of 2018 to approve the creation of a Tax Increment Financing (TIF) District for this project. This was done to enable the financing of the project and to provide a mechanism for financial compensation to the school district. The TIF exempts 100% of the increase in the assessed value in the TIF area for a period of 30 years to provide for payment by the developer of the costs of the project improvements.

On November 25, 2019, the CHUH School District Re-Authorized the TIF to re-align the term of and financing through the TIF with the schedule for construction of improvements. While the TIF was initially approved in the 1<sup>st</sup> Quarter of 2018, construction is not anticipated to commence until the 1<sup>st</sup> Quarter of 2020, therefore, the City requested that the school district re-authorize the TIF to realign the TIF financing needs with the current construction schedule; Per the Ohio Dept. of Taxation, currently the term of the TIF would run from 2019 – 2048; since construction will not commence until 2020, this term should run from 2021 – 2050;

Presently, the school district receives a little over \$20,000 annually from property taxes assessed on the Top of the Hill site, which is currently used as a municipal surface parking lot. Once the project is constructed, the increased value of the new buildings and improvements to the site are projected to result in compensation to the school district of almost \$400,000 in each year the TIF is in place.

The TIF is necessary to finance the construction of the project improvements, and will provide strong and significant school compensation opportunities for the school district as compared with the revenue generated by continuing to use the site as a municipal surface parking lot.

Please find additional information and TIF flow of funds projections provided below.

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**How and why is the City providing assistance to develop the Top of the Hill site?**

Nearly every mixed-use development like this in Ohio has required some public-private partnership with public subsidies of various types in order to be a viable project. This is true in Cleveland Heights, but it is also true in Shaker Heights, Beachwood, Strongsville, Avon Lake, Westlake and all other Cleveland-area suburbs that are seriously working to spur economic development. If a project cannot be done with at least a reasonable expectation of profitability, developers will, unfortunately, find other projects to focus their attention and capital on, and parcels like Top of the Hill can remain undeveloped for decades. Rents in our part of the country are often not high enough to allow a developer of this type of mixed-use project to pay debt service on the project financing and still have some ability to recoup a profit on the investment of time and money the developer will be required to put into the project. The Top of the Hill site is owned by the City and certainly has value, but it also is a challenging site in a number of ways and cannot be developed into the vibrant mixed-use project the City envisions without the City providing significant assistance.

That assistance can take a number of forms, but in this case the City is (1) providing low-cost land (the City will receive nominal lease payments over time) and (2) providing the opportunity for the developer to take advantage of tax increment financing (TIF), and economic development tool provided in the Ohio Revised Code Section 5709.41, to help make the economics of the project viable. In return for this assistance, the City has attracted an experienced world class developer proposing to construct a catalytic & transformative mixed-use gateway project by investing over \$80,000,000 of its own funds to make the project a reality – bringing new residents, businesses and vibrancy to our city

**What is a “TIF”, why is it needed for this project and how will the school district benefit from the TIF?**

A TIF, or Tax Increment Financing, is an economic development tool local governments can utilize to finance improvements determined to serve a public purpose. The redevelopment of the Top of the Hill site would serve this public purpose.

TIF’s are established by enacting legislation that designates certain parcels (the TIF area) as exempt from taxation, declares improvements to private property within that specified area as serving a public purpose, delineates the improvements to be made that directly benefit the parcels in the area, and creates a fund to receive service payments in lieu of taxes that can then be used to pay for the cost of the improvements, typically debt service payments.

For this project, payments in lieu of taxes will be derived from service payments made by the developer from the increased assessed value, over the existing parcel base value, of any improvement to real property in the TIF area. These payments are made by the developer in an amount equal to the real property tax liability that otherwise would have been due had the property not been exempted. The payments will then be directed towards a separate fund to be used to pay the debt service for project improvements.

The City adopted Ordinance 16-2018 in March of 2018 to create a project-based TIF for the project site and exempt 100% of the increase in the assessed value of each parcel in the TIF area for a period of 30 years to provide for payment by the developer of the costs of improvements from service payments generated by the improvements to the parcels within the project site, in lieu of tax payments.

Since TIF’s impact the amount of revenues available to the school districts, the City sought the approval of the school district to create the TIF. As a result, the City and school district entered into a school compensation agreement on March 20, 2018. Currently, the project site yields approximately \$21,000 in annual revenue from taxes on the project parcels to the school district. The proposed TIF has been structured in such a way as to yield an estimated \$421,000 annually to the school district consisting of \$28,000 from the existing parcel values and \$393,000 in future service payments from the TIF.

While the project still has a significant financial gap to overcome to be successful, as evidenced by the City’s commitment of \$1.85 million to the project, the proposed TIF structure cash flows,

achieves the projected level of debt service coverage required for the project to proceed, and provides very strong and significant school compensation opportunities for the school district as compared with the revenue generated by continuing to use the project site as a municipal surface parking lot.

Overall, the project will provide new vibrancy, jobs, economic activity and tax revenue for the City. This economic impact is summarized below:

<b>Top of the Hill - City &amp; School District</b>		11/7/2018	
<b>Economic Impact Return (Projected)</b>			
	<u>Jobs/Residents</u>	<u>Annual (Stabilized)</u>	<u>Over 30 Years</u>
<b>Recurring Income Tax Revenue:</b>			
Total Income Tax (permanent jobs)	91	\$ 50,822.00	\$ 2,061,763.00
Income Tax - Apartment Residents	210	<u>\$ 219,096.00</u>	<u>\$ 8,888,304.00</u>
		<u>\$ 269,918.00</u>	<u>\$ 10,950,067.00</u>
Total Income Tax - Construction Jobs	588	<u>\$ 685,688.00</u>	Onetime payment
<b>Real Estate Tax Revenue:</b>			
City Real Estate Taxes		<u>\$ 3,725.00</u>	<u>\$ 129,582.00</u>
<b>School District:</b>			
School District Real Estate Taxes		\$ 27,897.00	\$ 970,394.00
School District - Service Payments		\$ 392,981.00	\$ 10,803,482.00

**TIF Flow of Funds (Report compiled 1/15/19):**

- **Type of Development:** Mixed use commercial and residential;
- **Proposed Uses:** Residential luxury apartments, and commercial/retail, and structured parking facility;
- **Current Uses:** Municipal surface parking serving neighborhood residents and commercial district businesses;

**Non-Development Scenario:** If the Top of the Hill property remains a surface parking lot (Current Tax Performance - annual) Real Estate Tax Revenue (School Portion 2016 County value & taxes): \$21,218;

County market value: \$764,600

County assessed value: market value x 35% or \$764,600 x .35 = \$267,610

				<u>Property Tax Breakdown: 100%</u>	
Total millage:	147.9095540000	100%	Schools	70.5%	
School District millage:	104.2416290000	70.48%	County	12.0%	

Non-school millage:	43.6679250000	29.52%	City	9.5%
			Library	6.0%
Effective Tax Rate:	5.177% Commercial		MetroParks	2.0%
	4.080% Residential			

The millage rate is applied to the “assessed value” (35% of market value) for a property as determined by the County. One mill equals \$.001. The effective rate is the conversion of the millage rate for that year expressed as a percent of market value. The effective tax rates as determined by the County apply to all the properties within a class of properties in a taxing jurisdiction. They are not property specific.

**TIF Financing Option for Top of the Hill:** Projected annual increased value resulting from improvements to the site are 100% exempt from taxation for a term of 30 years; taxes on the land value will continue to be paid;

		<u>Land</u>	<u>Improvements</u>	<u>Total</u>	
Estimated Market Value		\$764,600	\$43,084,591	\$43,849,191	
<i>(Market value x .35 = assessed or taxable value; x total millage = total tax)</i>					
Total Tax		\$ 39,582	\$ 2,230,418	\$ 2,270,000	
Exemption %		0%	100%		
Tax exempted		---	\$ 2,230,418		
Tax due	100%	\$ 39,582	---		
CHUH S.D. Portion	70.48%	\$ 27,897	---		
Service Revenue	100%	---	\$ 2,230,418		
CHUH S.D. Portion	70.48%	---	\$ 1,571,923		
CHUH Compensation (25%)		---	\$ 392,981		
Revenue to CHUH S.D.		\$ 27,897	\$ 392,981	\$420,878	17.62%
Available to the Development		---	\$ 1,837,437		82.38%

#### **School Compensation - Market Value:**

- Less than or equal to \$44,000,000: 25% schools would have collected if not for TIF / school district effective millage;
- Greater than \$44,000,000, less than \$50,000,000: 33.33% of tax revenue that would have been collected;
- Greater than or equal to \$50,000,000: 50% of tax revenue that would have been collected;
- New School Levies: 100% of tax revenue that would have been collected;

**PROJECTED ANNUAL FLOW OF TIF FUNDING:**

