

Chapter III: Municipal Finance

Introduction

Different choices and opportunities inform a city's development and affect their future viability. This study examines the retail development mantra, "grow, morph, or die" and its effect on city finance as one potential indicator of viability, or sustainability, as a community. The cities of Cleveland Heights and Euclid were chosen for the study due to their similarity in size and demographic make-up. Retail development at Severance Town Center and Euclid Square Mall, respectively, are focus sites, representing re-investment and disinvestment in these inner-ring suburbs. Upon examination of retail development at the focus sites and differing impacts on municipal finances, policy recommendations to support long-term viability of communities related to retail development will be discussed.

History of Cleveland Heights and Euclid

As the city of Cleveland grew, settlers also discovered the suburbs of Euclid and Cleveland Heights and emigrated there due to the good quality of land for farming and the opportunities for quarrying. Although farming was predominant in both cities (wheat and table grapes in Euclid), bluestone quarrying was also lucrative.¹¹²

Cleveland Heights

Cleveland Heights is located southeast of downtown Cleveland in a pocket of land mostly isolated from direct highway access. Beginning in the late 1800's, the elite residents of the city of Cleveland began to move farther and farther east to avoid the city's growth. People longed for a home away from the grit and noise of the industrial city. The population of Cleveland Heights increased due to this out-migration and continued to grow as the advent of the streetcar made travel to the community on the hill more accessible. It was incorporated as a city in 1921. Cleveland Heights continued to grow as University Circle's Case Western Reserve University, The Cleveland Clinic and University Hospitals grew and added increased job opportunities in close proximity to this suburb. Today, with a total population of 49,958,¹¹³ Cleveland Heights is home to a diverse mixture of immigrants and people of different ethnic backgrounds. It is characterized as a community of unique, tree-lined streets, dotted with beautiful neighborhood parks and with homes and businesses with beautifully crafted architecture.¹¹⁴

Euclid

Euclid is located directly east of downtown Cleveland along Interstate 90. It was one of the first cities to be established in the Western Reserve, via contract between Superintendent Moses Cleaveland and 41 members of the Connecticut Land Company. In addition to farming, the industries of saltworks, sawmill, gristmill and ship building drew people to the community. Between 1809 and 1815, Euclid was larger and considered more promising than nearby Cleveland. However, completion of the Ohio Canal in 1827 assured Cleveland's future

¹¹² <http://www.clevelandheights.com/historyarch.asp>; <http://www.ci.euclid.oh.us/about/history.cfm>

¹¹³ U.S. Census Bureau, Census 2000 Demographic Highlights, City of Cleveland Heights

¹¹⁴ <http://www.clevelandheights.com/historyarch.asp>

dominance. In 1850, the Cleveland, Painesville and Ashtabula Railroad built tracks through Euclid. World War II brought sudden growth to the community. An influx on new industry began replacing the farmland. Euclid's city planners assured orderly growth by segregating commercial and industrial land from residential neighborhoods, becoming pioneers of modern zoning concepts.¹¹⁵ Today, Euclid has a total population of 52,717.¹¹⁶ It is a diverse community with beautiful neighborhoods, but characterized primarily by its industrial and business core which bisects the city and is visible from I-90.

Table 1 shows summary characteristics for both cities in 1970 and 1990, the approximate years both retail centers were built and closed. Income and property tax are also indicated.

Table 3.1 Summary Characteristics for the cities of Euclid and Cleveland Heights, 1970 and 2000

Year	City	total population	total households	total income (\$ billions)	median household income (\$)	income tax rate (%)	commercial property tax rate (%)
1970	Cleveland Heights	60,767	20,586	1.3	62,723.97 ¹	not available	not available
	Euclid	71,552	25,303	1.4	55,507.52 ¹	not available	not available
2000	Cleveland Heights	49,958	21,798	1.0	46,731.00	2.00	3.15
	Euclid	52,717	26,123	0.9	35,151.00	2.85	2.50

¹ Actual dollars: Cleveland Heights \$13,368 and Euclid \$11,830 inflated to 2000 dollars: <http://www.bls.gov/>

Although population shifts have occurred and total income levels have dropped overall, income in general has been and remains consistent between the two cities over the 30 year time span indicated in Table 1. The City of Euclid has a more favorable commercial property tax rate, which, in theory, would indicate a more favorable development climate.

History of Severance Town Center and Euclid Square Mall

From the time that these retail centers were built, population in Euclid and Cleveland Heights and in Northeast Ohio in general, has steadily decreased, as shown in Table 1. Not only has this decrease had an impact on sales for existing retailers in these centers, it has also created increased competition for new retailers to the area in general.

Severance Center

Severance Center was built in Cleveland Heights at the corner of Mayfield and South Taylor Roads in 1963, on the former site of the John L. Severance estate, Longwood. It was the first enclosed shopping mall in the state of Ohio. The mall was anchored by two Cleveland-based department stores, Higbee's and Halle's, and within 5 months of opening, it featured 52 retailers.¹¹⁷

¹¹⁵ <http://www.ci.euclid.oh.us/about/history.cfm>

¹¹⁶ U.S. Census Bureau, Census 2000 Demographic Highlights, City of Euclid

¹¹⁷ http://www.heightslibrary.org/question_archive2.php?id=119

Figure 3.1



Figure 3.2



At the time the mall was built, Cleveland was the 8th largest city in the United States, with a population of 876,050. Cleveland Heights had a population of 61,813.¹¹⁸

By the mid-1960's, there were 8 other regional shopping malls in Greater Cleveland.¹¹⁹ Several renovations were completed in the next several years, in an effort to remain competitive with retail around the region:

- Mid-1960's: second retail level built over the first
- 1981: northwest wing constructed, with the addition of Gold Circle Department Store
- 1984: Galaxy Food Court added and cinema expanded; 120 retailers now housed in the mall

Figure 3.3



Other retail centers in the region that provided competition for Severance, and spurred its renovations, were Beachwood Place, Golden Gate Plaza, Southgate Shopping Center, Euclid Square Mall, Richmond Mall and Randall Park Mall. By 1960, Southgate was the largest strip shopping center in the United States and with 2 million square feet of retail, Randall Park Mall was marketed as the largest mall in the country when it opened in 1976. Table 2 shows retail center competitors for both Severance Center and Euclid Square Mall.

¹¹⁸ 1960 U.S. Census

¹¹⁹ http://mall-hall-of-fame.blogspot.com/2006_10_01_archive.html

Table 3.2 Retail competitors to Euclid Square Mall and Severance Center

Retail Center	Location	Distance from Severance Town Center (miles)	Distance from Euclid Square Mall (miles)	Date Opened	Square Footage
Severance Town Center	Cleveland Heights	n/a	8.4	1963	500,000
Euclid Square Mall	Euclid	8.4	n/a	1977	687,000
Great Lakes Mall	Mentor	17.0	10.8	1961	1,300,000
Golden Gate Plaza	Mayfield	5.4	9.9	1958	360,000
Eastgate	Mayfield	6.1	10.5	1954	360,000
Beachwood Place	Beachwood	4.0	12.8	1978	950,000
Richmond Town Center	Richmond Heights	3.8	4.3	1968	875,000
Southgate Shopping Center	Maple Heights	8.4	19.3	1955	800,000
Randall Park Mall	North Randall	7.6	18.5	1976	2,000,000

The mall struggled over the years as retailers, especially anchor tenants, closed. Gold Circle closed its store after only 4 years due to lagging sales. Halle’s went bankrupt in 1982, leaving a vacancy at the mall that wasn’t filled until 1989 when the Joseph Horne Company opened. Higbee’s was re-branded as Dillard’s in 1992, but closed their store altogether in 1995. The cinemas went out of business in 1998.¹²⁰

**SEVERANCE TOWN CENTER
CLEVELAND HEIGHTS, OH**

Figure 3.4



The shopping center was re-developed by Chicago-based Pinetree Commercial Realty in 1998 and converted to a 500,000 square foot power center with Home Depot, Wal-Mart and Marshall’s as anchors.¹²¹ Approximately 35,000 square feet, or 7%, is vacant.

At the time of the mall re-development, the population of Cleveland Heights decreased to 54,052.¹²²

Euclid Square Mall

The population of the city of Euclid was at its peak in 1970, with 71,552 residents.¹²³ Euclid Square Mall was built in 1977 on a former 71-acre industrial site, just off Interstate 90 between E. 260th Street and Babbitt Road.

The mall itself is primarily a one-story shopping mall with 687,000 square feet of retail space.¹²⁴ May Company and Higbee’s anchor stores were each two-story buildings. There are also four outparcels on the site: a closed Red Lobster, Toys -R-U’s, Bank One and a convenience wing

¹²⁰ Ibid

¹²¹ www.pinetreecommercial.com

¹²² 1990 U.S. Census

¹²³ 1970 U.S. Census

¹²⁴ Euclid Square Mall redevelopment study, September 2001, International Economic Development Council

that included a Fazio's supermarket store at one time.

The mall declined with the growth of additional suburban malls in the trade area, primarily Great Lakes Mall in Mentor and Richmond Mall in Richmond Heights. In 1998, Kaufman's (formerly May Company) closed its location at Euclid Square Mall and moved to Richmond Mall, undergoing a vast renovation and expansion under the new name Richmond Town Center.

By 2003, the mall was mostly vacant. A few food retailers and Dillard's, operating as an outlet store, remained. By 2000, the population of the city of Euclid had decreased to 52,717.

There have been several attempts by the city to attract developers and other retailers to the mall site, with no success:

- interest expressed in the site for medical offices
- Home Depot and Target have been interested in the site for "Big Box" retail, but both ultimately chose other locations: Home Depot on E. 200th Street in Euclid and Target in Willoughby
- interest in the Kaufman's portion of the mall for a call center

The International Economic Development Council completed a redevelopment study for the Euclid Square Mall site in 2001. Their suggestions include development as a call center or location for back office operations, new "power center" retail or institutional uses such as museums, educational or art centers.¹²⁵

In 2004, the mall was purchased by Ted Lichko who opened Outlets USA in the former



Figure 3.5

Kaufman's space in an attempt to revitalize the mall. "What we are about to do is very big for Euclid," he said Tuesday, while in the office of his furniture store. "We're first going to open what we're calling Outlets USA. We will have between 300-500 vendors of high quality products at low prices. We want to stress these will be high quality products." Mike Resnick, working with Lichko as Outlets USA's director of leasing, said, "We're talking about (shoppers) buying a Cadillac at a Chevrolet price."¹²⁶ Unfortunately, Outlets USA closed within months of opening.

Today, Euclid Square Mall is vacant, except for Dillard's, which still operates as an outlet store, though only on the first floor of the former Higbee's and utilizes approximately 55,000 square feet. Dillard's lease expires in 2010. All of the outparcels are vacant.

¹²⁵ "Euclid Square Mall Redevelopment", International Economic Development Council, September 21, 2001

¹²⁶ "Mall's new owner has big plans", March 25, 2004, Sun Newspapers

Sustainable Municipal Finance

Sustainability is a concept of growing and developing a community in a manner that protects and conserves the ecosystem where it is situated. On a regional watershed level, all development done in this way will contribute to better environmental quality.

The problem lies in how to apply tax policy in a way that enforces or encourages sustainable growth without destroying the bottom line of retail development. Major retailers are in the business of making money, not paying excessive taxes. For example, the Northeast Ohio Regional Sewer District (NEORS) is currently adding capacity and rebuilding portions of the region's sewer system. Current customers are paying for the new sewers with increased rates in the coming years. However, the customers are not directly creating the storm water; most of it is coming from large impervious surfaces—parking lots throughout the region. Big box stores pay the same water/sewer rate as the average customer based on how much water they use and sewage they produce. Missing in this equation is the cost of the storm water the parking lots for the stores are producing. The solution seems straightforward, calculate the amount of storm water produced and charge the stores accordingly. Unless this is a regional policy, the stores will locate in areas where they do not have to pay that amount. Tax credits and incentives are a way to influence behavior. By including these into the tax code, sustainable growth can begin in Ohio.

Sustainable municipal finance includes tax policy and costs of public services. Current tax structure in Ohio regulates that schools' primary revenue source is from sales property tax revenues while the municipalities gain revenues from both property and income tax. In this set up, schools and communities benefit from more and larger retail development. Municipalities encourage industrial and commercial growth that supports higher paying jobs. It is clear where the affiliations are under this structure.

In linking tax policy to land use, Boston performed a study, devised a “series of strategies that might tilt decision-makers away from ‘fiscal zoning’ and toward ‘smart growth’ or ‘sustainable development’”. The study is based on the premise that key elements of state and local tax policy influence local development decisions. These policy drivers contribute to sprawl, unsustainable development, and competition among communities, all with negative environmental impacts. Reliance on the property tax to fund local services, especially schools, and the “new growth” provisions of Proposition 2 ½ lead communities to grow more and differently than they otherwise might. Results include growing traffic congestion; stresses on water supplies, water quality, and wastewater treatment capacity; high housing costs; loss of open space and agricultural land; greater energy use; and lower air quality.

The optimal set of strategies would

- Promote higher density, mixed use, transit-oriented development in appropriate areas;
- Encourage development where there is infrastructure to support it;
- Promote the protection of environmentally sensitive resources;
- Encourage a mix of housing opportunities throughout the region; and

- Make it easier within the home rule framework for communities to plan cooperatively and share tax bases, revenues, and tax burdens.¹²⁷

In the residential sector, there are tax credits already in place for green building and energy efficient practices from federal government. Credits are available for items like doors, windows and roofs that meet energy conservation requirements.¹²⁸

At the federal level there are incentives, credits and deductions for businesses and corporations. These incentives are mostly based on equipment and systems that conserve or produce energy. While these measures are a step in the right direction, what is lacking is any federal promotion of sustainable growth. The first example below explains part of the process for commercial uses to get tax credits for energy efficient systems. The second and third citations detail the expansion of energy property equipment available for deduction and the amount of deduction.

“This notice sets forth interim guidance, pending the issuance of regulations, relating to the deduction for energy efficient commercial buildings under § 179D of the Internal Revenue Code. Specifically, this notice sets forth a process that allows a taxpayer who owns, or is a lessee of, a commercial building and installs property as part of the commercial building’s interior lighting systems, heating, cooling, ventilation, and hot water systems, or building envelope to obtain a certification that the property satisfies the energy efficiency requirements of § 179D(c)(1) and (d).”¹²⁹

“For periods in 2006 through 2008, the investment credit for energy property has been expanded to include the business installation of qualified fuel cells, stationary microturbine power plants, and equipment that uses solar energy for illumination. In addition, the credit percentage has increased to 30% for solar energy property placed in service in 2006 through 2008. For more information, see Form 3468.”¹³⁰

“For property placed in service in 2006 through 2008, you can deduct the cost of energy efficient building property. The maximum deduction for any building for all tax years is \$1.80 multiplied by the square footage of the building. Energy efficient building property includes property installed as part of: Interior lighting systems; Heating, cooling, ventilation, and hot water systems; and the building envelope.

The property must be certified as being part of a plan to reduce annual energy and power costs for those systems by a least 50% in comparison to a reference building that meets certain requirements. For more information, see Notice 2006-52, 2006-26 I.R.B. 1175.”¹³¹

¹²⁷ TOWARD A SUSTAINABLE TAX POLICY: Tax Strategies to Promote Sustainable Development in Metro Boston. Metropolitan Area Planning Council, The McCormack Institute U. S. Environmental Protection Agency. September 2001.

¹²⁸ <http://www.irs.gov/pub/irs-pdf/p553.pdf>

¹²⁹ <http://www.irs.gov/pub/irs-drop/n-06-52.pdf>

¹³⁰ <http://www.irs.gov/pub/irs-pdf/p553.pdf>

¹³¹ <http://www.irs.gov/publications/p553/ch02.html#d0e2102>

Another program at the federal level is the Modified Accelerated Cost-Recovery System (MACRS) which allows businesses to recover costs through depreciation reductions. Under the Modified Accelerated Cost-Recovery System (MACRS), businesses can recover investments in certain property through depreciation deductions. The MACRS establishes a set of class lives for various types of property, ranging from three to 50 years, over which the property may be depreciated. For solar, wind and geothermal property placed in service after 1986, the current MACRS property class is five years. With the passage of the Energy Policy Act of 2005, fuel cells, microturbines, and solar hybrid lighting technologies are now classified as 5-year property as well.”¹³²

The federal tax credits and deductions available today help businesses and corporations progress towards a goal of sustainability. There are more tax incentives controlled at the state level and they can be more progressive than the incentives the federal government offers. For example, Maryland has a tax policy to encourage large retail stores to develop on brownfields or to renovate old stores. This is a good example of policy that would be easily adapted in Ohio and may influence corporate decisions on where and how to build.

“To qualify for the credit in Maryland a business must construct or rehabilitate a building located in Maryland with at least 20,000 square feet of interior space that is used primarily for non-residential purposes; or a residential, multi-family building with at least 12 dwelling units; or any combination of the above. The building must be located in a priority funding area or qualified "brownfields" site and not on wetlands.”¹³³

Ohio tax policy includes exemptions from sales and use tax for energy conversions. Below is a summary of Ohio’s corporate tax exemptions for energy conversion. An example is using a wind turbine to produce some of the electrical needs of a business. Tax incentives and credits at the state level in Ohio should be more progressive, like Maryland, to promote sustainable growth.

“Ohio exempts certain energy equipment from property taxation, the state's sales and use tax, and the state's franchise tax where applicable. The exemption applies to tangible property used in energy conversion, thermal-efficiency improvements and the conversion of solid waste to energy. Generally, "energy conversion" refers to the replacement of fossil-fuel resources with alternative fuels or technologies; "thermal efficiency improvements" refers to the recovery of waste heat or steam produced in any commercial or industrial processes; and "solid waste conversion" refers to the use of waste to produce energy and the utilization of such energy. Eligible technologies include solar-thermal systems, photovoltaic systems, wind, biomass, landfill gas and waste-recovery systems.”¹³⁴

Sustainable building practices do not always have to focus on new development. It is essential to reuse vacant big box and other abandoned retail in a community. It not only

¹³² Directory of State Incentives for Renewables and Efficiency (www.dsireusa.org)

¹³³ <http://business.marylandtaxes.com/>

¹³⁴ Directory of State Incentives for Renewables and Efficiency (www.dsireusa.org)

generates sustainable revenue for the municipality, it affects the viability and future success of the community as a whole. In northeast Ohio there is a surplus of vacant retail, as noted in the NORRA update this class performed. The cost of rehabilitation can be lower than new greenfield development because the cost of existing infrastructure can be rolled into the total cost of the site. Another plus is the recycling; reusing a building saves a lot of materials that would otherwise be disposed of in a landfill.

Obsolete shopping malls and strip centers are increasingly being reinvented as live/work/shop/play centers designed to engage customers seeking a creative mix of retail and entertainment, and to appeal to residents seeking a “walk to everything” living environment, according to participants at ULI’s 14th annual Reinventing Retail conference, held February 22–23 in Beverly Hills, California. A recurring conference theme was how essential it is to get the mix right—whether it is the mix of retail tenants or the mix of retail, residential, and other uses—in terms of offering the best combination of quality, ambience, service, value, and convenience.¹³⁵ Examples are the former Uncle Bill’s Department store at Euclid Beach Park that is planned to be a new community center and the Mid-Ohio Conference Center in Mansfield, Ohio.

According to Max Reim, principal at Live Work Learn Play, LLP, in Montreal, the best way to ensure project sustainability is to provide an intergenerational environment that is not homogeneous, but instead unique in its ability to appeal to a variety of demographic groups: aging baby boomers (particularly women), gen-Xers now getting married and having children, gen-Yers spending their parents’ money on the latest electronics, and those in the millennium generation who are also tapping out their parents’ wallets. “The trick is to revisit your marketing plan every year and tweak the plan in response to the users. . . . True brilliance is not in just building buildings, but it creating the soul of a place,” Reim said.¹³⁶

Communities are finding other interesting ways to reinvent and make relevant abandoned retail buildings for their residents and other stakeholders. Julia Christensen is a new media artist who began investigating How Communities are Re-Using the Big Box in the winter of 2003. Since the spring of 2004, she has traveled over 75,000 miles around the country in her car, visiting the sites and meeting the people who are transforming empty Wal-Mart buildings, K-Mart buildings and Target buildings and more into useful structures for their community.¹³⁷ Some of these uses include the Spam Museum, churches, apartments and an indoor raceway.

Impacts

Introduction

The purpose of a fiscal impact study is to determine the direct impacts a development has on a municipality. This type of analysis measures the estimated costs of services a municipality

¹³⁵ Riggs, Trisha. . "Retail: Reusing Obsolete Space with New Combinations." April, 2007.http://www.uli.org/AM/Template.cfm?Section=Current_Issue&template=/CM/ContentDisplay.cfm&ContentID=88416 (accessed May 1, 2007).

¹³⁶ Ibid

¹³⁷ Christensen, Julia. April 19, 2007.<http://www.bigboxreuse.com/> (accessed May 1, 2007).

may incur due to a development and also the revenue the development may generate (e.g., taxes and user fees). A fiscal impact study may be used to aid in determining the viability of a development in addition to formulating growth and planning management strategies.

The fiscal impact study presented within examines and compares the direct impact Severance Town Center (“Severance”) has had on the City of Cleveland Heights and Euclid Square Mall (“Euclid Mall”) has had on the City of Euclid and their corresponding school districts. The specific time period is from the year 1999 to 2004. The time frame covers the following year after the redevelopment of Severance in 1998 and the proceeding years afterward to allow for an appropriate time lapse for measurement. Severance is designated as the base development due to the reinvestment into the center as opposed to little to no investment in Euclid Mall. The approach is an attempt to illustrate and test the “morph, grow, or die” mantra mentioned earlier in this report.

Methodology

This study uses a hybrid-multiplier per capita approach to measure for the impacts of each development in each of the municipalities and their respective school districts. Under this approach, demographic and budget data are used to estimate municipal costs and revenues on a per capita basis. Specifically, the per capita is proportioned into values residentially and commercially induced. For the purposes here, the study only measures for values that are commercially induced since the residential component of the developments was omitted. Two steps are used to calculate for the multiplier (Appendix A). The first step involved calculating the proportion of commercial uses to the total costs of the municipality. This is accomplished by averaging the percentage of commercial designated parcels and the total value of the commercial parcels for each municipality. The proportion of commercial parcels is determined by dividing the total commercial parcels located in each municipality by the total number of parcels. The proportion of the value of commercial parcels is determined by dividing the total value of the commercial parcels by the total value of all the parcels.¹³⁸ Next, the proportion for commercial uses is then multiplied to the actual costs and revenues of each municipality in a given year¹³⁹ to estimate the total value allocated to commercial uses. To calculate for the multiplier, the total value allocated to commercial uses is divided by the total number of employees in each given year. The total costs and revenues associated with each development are determined by multiplying the multipliers and estimated number of employees generated. However, property tax is not calculated on a per capita basis. The employees generated are an estimated figure assuming one employee generated per 212.4 square feet of retail.¹⁴⁰

The major considerations of revenue sources are property tax, municipal income tax, charges for services, licenses and permits, fines and forfeitures, and intergovernmental revenue. Costs that are taken into consideration are public works, general government expenditure, public works, recreation, sanitation, and transportation. It does not take into account any infrastructure or capital improvements. Cleveland Heights city officials stated that there were no abatements

¹³⁸ NEO CANDO system, Center on Urban Poverty and Community Development, MSASS, Case Western Reserve University (<http://neocando.case.edu>).

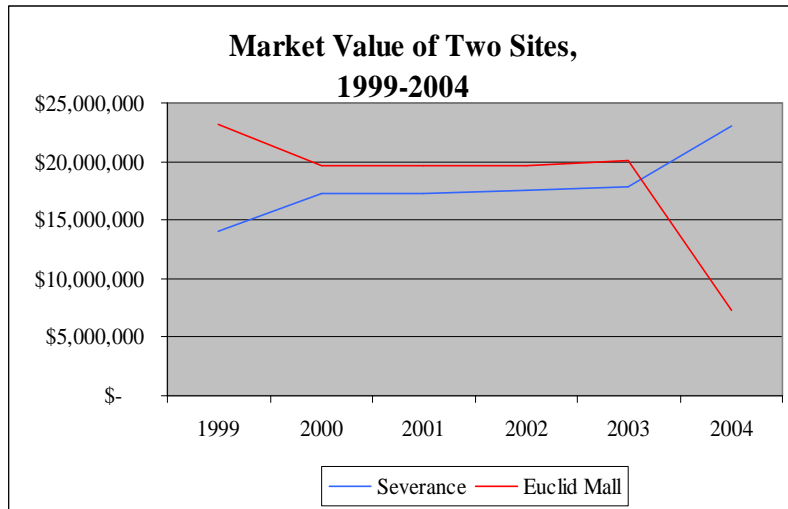
¹³⁹ Data compiled from the Comprehensive Annual Financial Report of each municipality, Source State of Ohio Auditor, www.auditor.state.oh.us

¹⁴⁰ CoStar Report

or tax incentives given offered in the redevelopment of Severance. The only capital cost to the city was towards road improvement of Severance Circle. Unfortunately the exact amount contributed by the city and the specific details of the deal could not be obtained. It was determined that the City of Cleveland Heights contributed \$2 million toward infrastructure redevelopment through the use of the Department of Housing and Urban Development’s Section 108 Program. This development finance technique allows communities to “use their CDBG allocation as a guarantee to backup federal financing for community and economic development projects, including commercial and industrial real estate projects”.¹⁴¹ Cash flow from Severance is then used to repay debt service on outstanding HUD notes. If the project were unable to make debt service payments on the outstanding notes, HUD would draw upon the City of Cleveland Heights’ annual CDBG allocation. There were no incentives offered by the City of Euclid towards Euclid Mall during this period.

There are several assumptions made for the study. Beginning in 2000, Severance is assumed to be at full capacity (i.e., retail space fully occupied), less a ten percent vacancy applied. Capacity of Euclid Mall is based on a combination of actual occupied retail space¹⁴² (2001 and 2004) and an estimate for the unspecified years. For the unspecified years prior to 2001, ten percent of occupied retail space was added based on 2001. For the years 2002 and 2003, a ten percent vacancy was added. In calculating for the fiscal impact on the respective school districts, we assumed that zero students were generated, as there is no residential component included in the study. Therefore, the cost of development to the school district is zero (See Appendix B).

Figure 3.6



Limitations of Study

The model of this study does not take into account the costs at the margins because it is using a straight-line average costing approach. There are circumstances within where the study either over- or underestimates the results. The specific circumstances are noted.

Trend Analysis

The determination to invest and therefore “morph”

Severance into the type of retail development the market demanded, as opposed to the disinvestment that occurred on the Euclid Mall site, resulted in at least three broad impacts on the corresponding taxing districts. The effect of investment into the site had a demonstrable effect on: Market Value, Property Tax Collections, and Municipal Income Tax Collections. The site’s market value and property tax effects are measured against both the corresponding City

¹⁴¹ Seidman, Economic Development Finance, p. 326
¹⁴² Euclid Square Mall Occupancy Report (2/01/2001)

and the School District, whereas income tax collection impact was only measured for the cities of Euclid and Cleveland Heights, where an income tax is levied.

Market Value

During the time period 1999 through 2004, there was dramatic dissimilarity in the market value of the two sites. Figure 3.6 demonstrates the change in each site's market value. Prior to

Figure 3.6 of Severance, Euclid Square Mall enjoyed a market value nearly \$10 million greater. However, the effect of investment is realized in 2004, where the market value of Severance increases. Throughout the five year period, the value of Severance increased by just over \$9 million or 39.3%¹⁴³, whereas the value of Euclid (through a request by the site's owner) decreased by over \$15.8 million or 218.7%¹⁴⁴. The performance at each site was paralleled by a decline in the taxing district's property tax collection capacity.

Property Tax Collections

In order to determine the direct effect investment had on the City of Cleveland Heights, the Cleveland Heights/University Heights City School District, the City of Euclid, and the Euclid City School District, actual collections were examined for the study period. After determining actual collection figures from the Cuyahoga County Auditor, it was necessary to determine the millage rates and distribution associated with each taxing district. This information was made available by the Cuyahoga County Treasurer. Table 3.3 below illustrates total collections, distribution of mills, and distribution of taxes.

Table 3.3

	1999	2000	2001	2002	2003	2004
Severance Town Center						
Total Tax Collections	\$ 489,995	\$ 640,677	\$ 611,492	\$ 633,697	\$ 644,756	\$ 854,540
City Millage Distribution	14.80%	14.00%	13.81%	13.65%	13.59%	12.38%
School Millage Distribution	67.76%	68.07%	68.30%	67.91%	66.28%	67.90%
City Property Tax Collections	\$ 72,518	\$ 89,681	\$ 84,418	\$ 86,528	\$ 87,633	\$ 105,803
School Property Tax Collections	\$ 332,042	\$ 436,080	\$ 417,640	\$ 430,342	\$ 427,351	\$ 580,267
Euclid Square Mall						
Total Tax Collections	\$ 537,586	\$ 289,332	\$ 288,750	\$ 188,662	\$ 233,746	\$ 189,851
City Millage Distribution	13.33%	13.41%	13.42%	13.19%	12.94%	12.45%
School Millage Distribution	66.95%	65.70%	65.56%	64.92%	62.92%	64.08%
City Property Tax Collections	\$ 71,644	\$ 38,813	\$ 38,750	\$ 24,893	\$ 30,257	\$ 23,641
School Property Tax Collections	\$ 359,898	\$ 190,104	\$ 189,307	\$ 122,479	\$ 147,063	\$ 121,648

During the study period total tax collections increased at Severance by over \$360,000 or \$60,000 annually or 42.7% while the total tax collections derived from the Euclid Mall site declined by just under \$350,000 or \$58,000 annually or a total decrease of 183.2%. The Severance site experienced a growth in tax collections of over 7% annually while the Euclid site experienced a decline of 31% annually.

¹⁴³ Cuyahoga County Auditor

¹⁴⁴ Ibid.

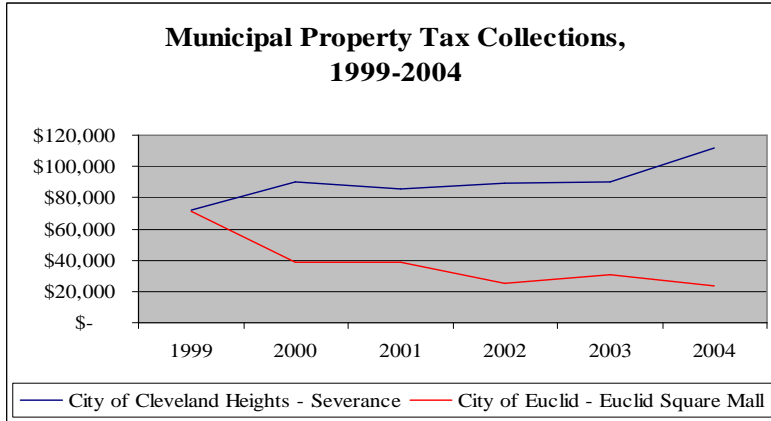
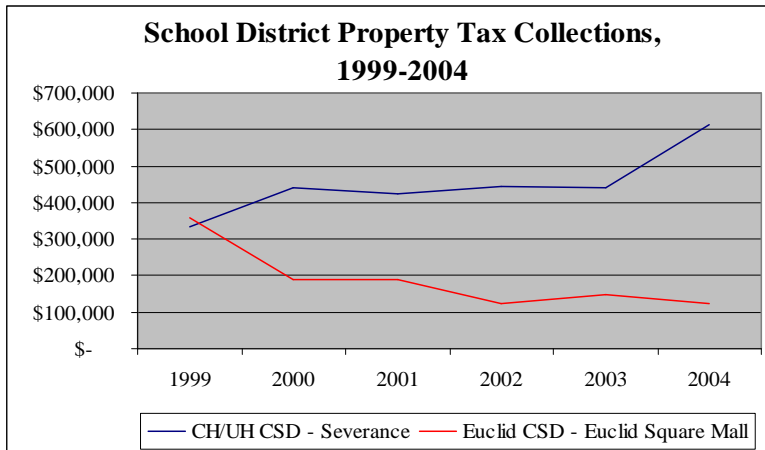


Figure 3.7

Figures 3.7 and 3.8 plot the actual collections by both cities and school districts derived from the two sites. The City of Cleveland Heights experienced an annual increase of over \$5,500 or over \$33,000 in total (or 31.46%) in tax collections from the Severance site. The City of Euclid’s annual property tax collections from the Euclid Mall site decreased by over \$8,000 or over \$48,000 in total (or 203.0%).

Figure 3.8



School district property tax collection trends were similar. However, given the strong reliance on property taxes by school districts in Ohio to fund operations, capital projects, and debt service, any significant growth or decline in collections is more meaningful. Like municipal property tax collections, the Cleveland Heights/University Heights City School District realized an average annual gain near \$42,000 or just under \$250,000 during the time

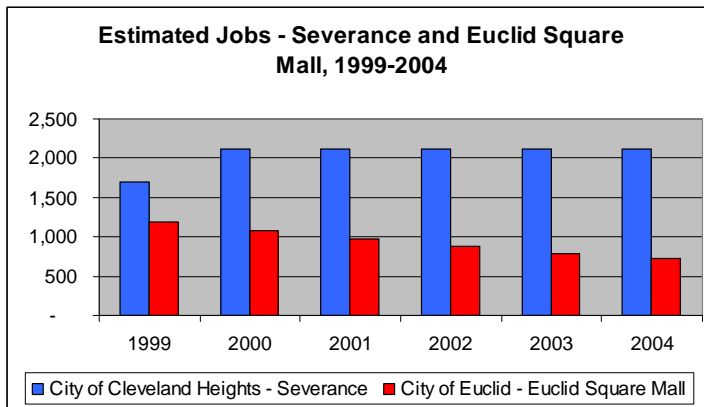
period reviewed. This net gain in property tax collections represents an increase of 45.9%. At the same time, because of the declining value of the Euclid Mall site, the Euclid City School District experienced an annual decline in property tax revenue of over \$39,000 or \$238,000 in total. This loss of property tax revenue represents a decline of 195.8%. Without making too many assumptions as to the cost of providing services for each entity, the performance of these two sites undoubtedly, at some level, affected service provision in each taxing district.

Income Tax Collections

The City of Euclid levies a total income tax of 2.85%, of which .47% is earmarked for the Euclid City School District. The City of Cleveland Heights levies an income tax of 2.0% and the Cleveland Heights/University Heights City School District does not levy an income tax. Because the Cleveland Heights/University Heights City School District does not collect any income tax, a comparison of school collections from the site was not conducted. Therefore the analysis focuses

the City of Euclid's 2.38% income tax collection and the City of Cleveland Heights' 2.0% income tax collection.

Figure 3.9



In order to estimate the amount of income tax revenue generated from each site, several assumptions needed to be made. First, an assumption on the vacancy rate of each site was assumed. As was cited previously, beginning in 2000, Severance is assumed to be at full capacity (i.e., retail space fully occupied), less a ten percent vacancy applied. Capacity of Euclid Mall is based on a combination of actual occupied retail

space (years) and an estimate for the unspecified years. For the unspecified years prior to 2001, ten percent of occupied retail space was added based on 2001. For the years 2002 and 2003, a ten percent vacancy was added. Second, the United States Census Bureau's County Business Patterns were consulted in order to determine average payroll for workers in the two-digit NAICS 44, Retail Trade classification. An average payroll for retail workers in the Cleveland-Lorain-Elyria MSA was used for workers at both sites. The average payroll was calculated for 1999 at \$18,725 and was adjusted annually based on increases in the Consumer Price Index (CPI). Third, employees generated are an estimated figure assuming one employee generated per 212.4 square feet of retail.¹⁴⁵ Finally, although a major limitation of the trend analysis, it was assumed that each City captured 100% of the income tax revenue generated at the site. In general, cities in Northeast Ohio have some income tax sharing agreements in place; therefore because not all of the employees at Severance or Euclid Mall live in Cleveland Heights or Euclid, the City will not realize 100% collections. However, for the purposes of this analysis, it is assumed that both cities capture all collections. Without question, this assumption artificially inflates the actual income tax collection data in the report. Appendix C summarizes all income tax collection data.

Figure 3.9 illustrates the estimated number of jobs at each site from 1999 through 2004. Again, these estimations are based on Costar's estimated jobs per square foot.

Figure 3.10

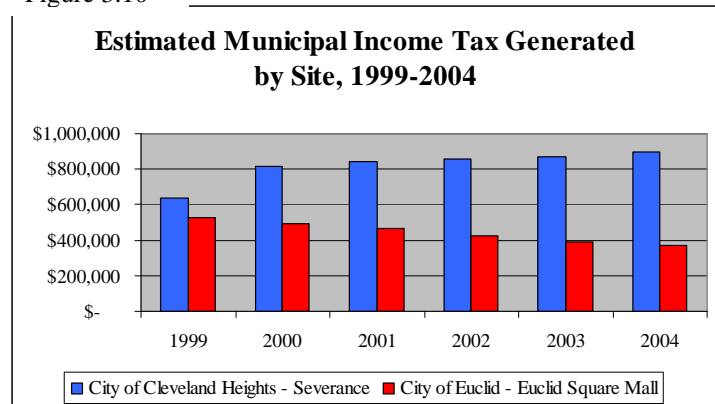


Figure 3.10 demonstrates the corresponding income tax collections derived from each site and paid to the cities of Cleveland Heights and Euclid. As with all other trends in this review, income tax collection from Severance consistently outperformed collections from Euclid Square Mall.

¹⁴⁵ CoStar Report

During the period reviewed, the City of Cleveland Heights realized an estimated annual increase in income tax collections of \$43,600 or a total of \$261,000 (29.2%). At the same time, the City of Euclid lost an estimated \$27,000 annually in income tax revenue. The total loss of income tax revenue to the City of Euclid is estimated at over \$160,000.

Again, this analysis likely overstated the income tax collection from each site. However, the same assumptions were made for both Severance and Euclid. Therefore, even when taking into account a slight dip in actual income tax revenues, Severance consistently outperformed Euclid Square Mall. Finally, it is worth noting that this difference could potentially be even greater if the City of Cleveland Heights levied income taxes at the same rate as the City of Euclid.

General Trend Conclusions

Although predictable, the trend analysis demonstrates the quantifiable net gain or loss each city realized during the period reviewed. Without question, the decision to “morph” at the Severance site had positive implications for the City of Cleveland Heights and the Cleveland Heights/University Heights School District revenue sources. Whereas the dire situation that Euclid Square Mall finds itself in has led to declining revenues for both the City of Euclid and Euclid City School District.

Fiscal Impact Analysis

The study shows a distinct difference in the benefits derived from each of the two developments in Cleveland Heights and Euclid. Though there is an increase in positive fiscal impact for both developments on their municipalities from 1999 to 2004, Cleveland Heights derived a much higher benefit from Severance (Table 3.4). In 1999, Severance had revenue to cost ratio of 5.60 while Euclid Mall had a ratio of only 3.93. This means that Severance produced \$5.60 for every dollar of cost associated to it. By the year 2004, Severance had a revenue to cost ratio of 6.19. The revenue to cost ratio for Euclid Mall was 4.18 in the same year. The significance here is the drastic difference in total revenue Severance generated for Cleveland Heights as opposed to the amount generated by Euclid Mall for the City of Euclid.

Table 3.4

Fiscal Impact	1999	2000	2001	2002	2003	2004
Cleveland Heights						
<i>Total Cost</i>	\$ 208,647	\$ 289,237	\$ 302,632	\$ 307,733	\$ 296,843	\$ 292,860
<i>Total Revenue</i>	\$ 1,168,563	\$ 1,516,872	\$ 1,510,589	\$ 1,549,208	\$ 1,575,143	\$ 1,812,607
<i>Net Fiscal Impact</i>	\$ 959,916	\$ 1,227,634	\$ 1,207,957	\$ 1,241,475	\$ 1,278,300	\$ 1,519,747
<i>Revenue to Cost Ratio</i>	5.60	5.24	4.99	5.03	5.31	6.19
Euclid						
<i>Total Cost</i>	\$ 318,860	\$ 250,579	\$ 234,092	\$ 165,628	\$ 101,830	\$ 160,150
<i>Total Revenue</i>	\$ 1,251,677	\$ 947,689	\$ 906,077	\$ 739,185	\$ 729,935	\$ 668,953
<i>Net Fiscal Impact</i>	\$ 932,817	\$ 697,110	\$ 671,985	\$ 573,557	\$ 628,104	\$ 508,804
<i>Revenue to Cost Ratio</i>	3.93	3.78	3.87	4.46	7.17	4.18

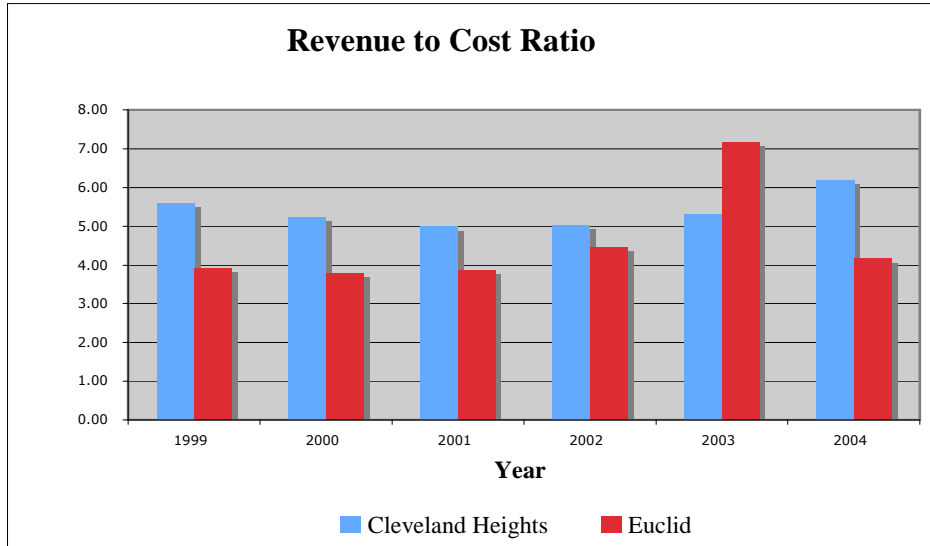


Figure 3.11

The figures here are reflective of the recent history of the two retail sites. The scenarios are an example of the “grow, morph, or die” mantra. In 1999, the net fiscal impacts were similar for both municipalities. However as Figure 3.11 illustrates, their paths diverge from that point. Reinvestment into Severance resulted in increased net revenue for Cleveland Heights. In 1999, Cleveland Heights derived from Severance a net of \$959,916 of which increased to \$1.52 million by 2004. This represents an average annual increase of \$111,966 (11.7%). The cost of Severance to Cleveland Heights remained relatively stable through this period of revenue growth. Overall, Cleveland Heights saw a 58.3% increase in total net revenue generated for the municipality by Severance. From the net gain, a conclusion can be drawn that the municipality was correct in supporting the redevelopment of Severance from an indoor mall into a power center.

While Cleveland Heights experienced an increase in net revenue, the reverse trend occurred for the City of Euclid. Though total costs declined by 50% from 1999 to 2004, the revenue Euclid Mall generated declined in similar fashion. In 1999, Euclid derived from Euclid Mall a net revenue of \$932,817. However the figure declined to \$508,804 by 2004 representing an average annual decrease of \$84,803 (9.1%). Overall, the municipality saw a 45.5% decrease in net revenue derived from Euclid Mall. This decline in net revenue is indicative of the general state of Euclid Mall and its recent history of increasing vacancy and obsolescence due to the newer and more desirable competition that surrounds it. Aside from Outlets USA opening in late 2004, the mall has seen a steady decline in tenants and increase in vacancy.

Figure 3.12

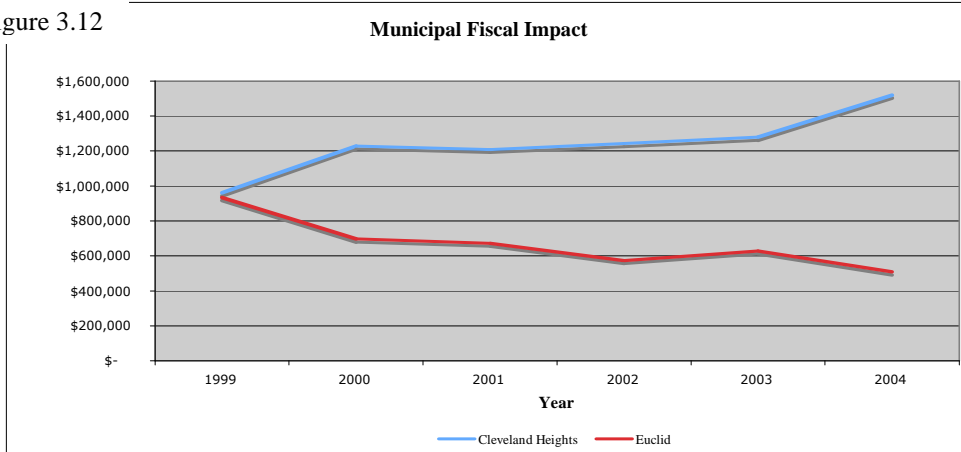
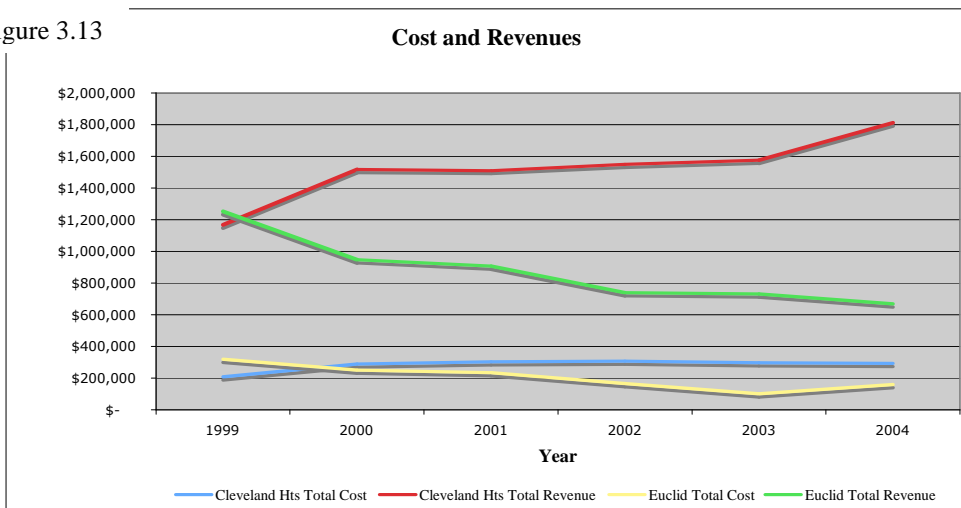


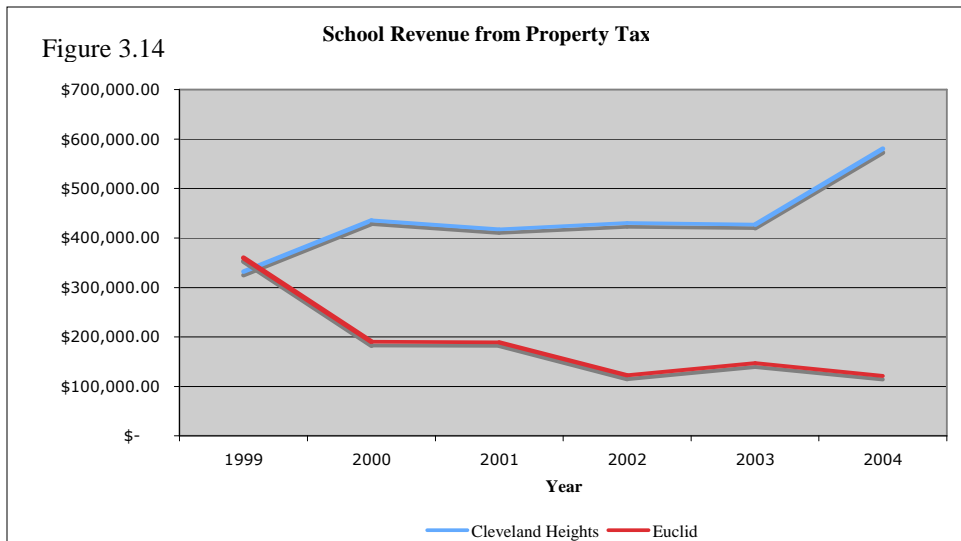
Figure 3.13



School District

The fiscal impact on each of the school district was consistent with their municipality. The Cleveland Heights/University Heights School District (“Cleveland Heights School District”) saw a steady increase in revenue from property tax derived from Severance.

Figure 3.14



In 1999, it received approximately \$332,042 in property tax revenue derived from Severance. This amount increased to \$580,267 in 2004 representing a gain of \$248,225 and an average annual increase of \$49,645 (15%). As mentioned earlier, there were no costs to consider as zero students were generated from the developments (See Appendix). The Euclid School District was consistent with the City of Euclid overall as it saw a steady decline in property tax revenue derived from Euclid Mall. Revenue derived from property tax declined from \$359,898 in 1999 to \$121,648 in 2004. The total decrease in revenue from property tax amounts to \$238,250 with an average annual decline of \$47,650 (13%).

Fiscal Impact Conclusion

The results of the fiscal impact study illustrate what can result when there is reinvestment as opposed to no investment. As with the trend analysis conclusion, the redevelopment of Severance from an indoor mall to a value-oriented power was a beneficial and successful endeavor for Cleveland Heights. The city reaped the benefits Severance offered as the revenues generated steadily increased and exceeded the cost to the city by almost six to one in 2004. In contrast, the disinvestment or lack of investment in the Euclid Mall led to a decline in revenues the City of Euclid received over the five-year period. Though the overall fiscal impact remained stable, when compared to Severance and Cleveland Heights, there is cause for concern and belief that there may be a better alternative than the status quo.

Policy Recommendations

After thoughtfully examining each site and city's history and characteristics, how retail development relates to sustainable municipal tax policy, and quantitatively demonstrating that the decision to invest, and therefore "morph", a retail site pays dividends to the affected community, several policy recommendations were developed. Each is aimed at creating an environment where retail development is encouraged while at the same time sustaining a constant or growing municipal revenue source. The limitation of these recommendations is that rather than addressing any shift that may occur in retail market demand, they are site specific. Instead, each encourages both public and private officials to enter into the retail development framework with more foresight given to maintaining a relevant retail site.

1. **Encourage re-development of abandoned retail sites under smart growth principles:**
 - Take advantage of existing infrastructure
 - Re-use existing resources
 - Conserve land resources via re-development
 - Promote high-density, mixed-use, transit-oriented development

2. **Encourage cities to develop master plans for development that coincide with their fundamental fiscal structures.**
 - Example: Columbus, Ohio's reliance on income tax collections places job creation at the top of its land development goals, while Oklahoma City's heavy dependence on sales tax has led to development of significant retail projects. (idea from "City Fiscal Structures and Land Development", Michael Pagano, April 2003).

3. **Work towards multi-industry creation of a paradigm shift in the physical structure and layout of retail develop to:**
 - Conserve land
 - Eliminate blight
 - Protect environmental resources
 - Encourage pedestrian-friendly communities
 - Promote adaptive re-use, ease of redevelopment

4. **Develop innovative economic incentives, through investor tax credits, for redevelopment of obsolete structures**
 - Already in place are investment incentives such as New Markets Tax Credits (NMTC) and Historic Tax Credits (HTC). Both programs utilize federal tax credits in order to attract equity investment in either low-income communities or historic structures.
 - Further, there is often an initial capital market gap that prevents the rehabilitation or demolition of an existing retail site, discouraging potential investors.
 - Given the combination of the growing number of abandoned, obsolete retail structures that exist throughout the urban, suburban, and rural landscape and the gap in financing that often exists – it may be time to consider retail-specific redevelopment investor tax credits.

5. **Encourage additional use of TIF districts to stimulate re-investment in existing infrastructure**
 - TIF (Tax Increment Financing) was developed in order to encourage reinvestment in blighted or distressed areas. Current TIF legislation in Ohio permits borrowing debt on future growth in property tax revenue.
 - Designating obsolete or abandoned retail structures, either by project or by district, as a TIF district will encourage developer investment in site.
 - Explore option of expanding TIF revenues to include any increase in sales tax derived from site.
 - TIF revenues can either be used to provide up-front debt financing to restructure site (when appropriate) and provide additional incentive for redevelopment.
 - Consideration should be given to designating new developments as TIF districts. A portion of the new tax revenue generated would be set aside for future use, maintaining site relevance. By utilizing a pay-as-you-go approach to any new development TIF revenues, increased tax revenues would be earmarked for continued site improvements such as: lighting, future land acquisition and structure rehabilitation, or new construction.

6. **Encourage regional tax revenue sharing for new development property and income tax**
 - Make it easier within the home rule framework for communities to plan cooperatively and share tax bases, revenues, and tax burdens

7. **Development of a regional retail site landbank**

- A landbank may be used as a municipal finance tool to address two factors important for developers—time and money
- A landbank addresses the issue of time by providing land for development projects when needed. Making land available provides an incentive for attracting developments. Furthermore, it reduces the opportunity cost to developers as it can streamline the process of assembling land for development
- A municipality can offer land from the landbank to developers at a nominal or discounted price, it is an incentive by reducing acquisition costs, therefore improving the development's pro forma projections
- A landbank may be made more effective if it works in conjunction with a comprehensive or citywide strategic plan. In addition, it may be used as leverage in structuring a deal whereby the developer agrees to give the municipality first rights in purchasing the property if certain predetermined benchmarks are not met, in exchange for property from the landbank.