

Tax those who've gained from public investment in OTR

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Urban neighborhoods across the country are being remade through the “root shock” of gentrification, a process full of tensions that creates opportunity for some and dislocation for others. In Cincinnati’s Over-the-Rhine neighborhood, a historical reversal is unfolding as the putative goal of fostering a more diverse community has given way to massive low-income housing loss, removal of services and shelters for the poor coupled with skyrocketing property values and rents.

And far from being the result of “the free market,” the massive property wealth that has been created is the intended result of public policy and public investments that include direct, substantial subsidies for construction of market-rate units and major investments in public amenities such as parks and streetcars. In short, the public has underwritten massive private gains in the name of urban redevelopment while resources and housing for the poor who used to call such neighborhoods home have been dispersed and reduced.

Even dedicated boosters of such redevelopment, such as Cincinnati Mayor John Cranley, call for reinvestment in low-income housing to avoid losing the possibility of “a real city” where people of diverse backgrounds share the streets and make the scene together. Ironically, the very success of OTR redevelopment has now created the urgent need for dedicated funding for inclusive low-income housing. Fortunately, there is a just and practical way to insure that the widely shared goal of a diverse, mixed-income urban neighborhood is supported: recapturing some of the private gains that public investments have fostered in order to underwrite serious efforts of inclusion.

Value recapture, as it is known in the urban development literature, is a fair and direct way to insure that some of the new wealth that results from public policy and investments serves broader public purposes. This gain is not “earned income” in the accounting sense; it is a capital gain due to having property in the right



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Public investment in Over-the-Rhine through construction of the Cincinnati Bell Connector and government subsidies for redevelopment should be recaptured through a fee or tax, three professors say. The proceeds could then be put into housing for low-income residents displaced by the improvements.

location. Recapturing such “gift value” is normal policy in other settings. When a freeway off-ramp is built, for example, it is not unusual to levy a fee or tax to reclaim some of the increased property and rental value of nearby land that follows.

The typical means of recapturing some of the value that has been gifted to private property owners is through a “betterment” fee or tax on the incremental gain due to public improvements. Such a tax could either be paid over time – usually annually – as an assessment fee or as a one-time payment of a portion of the location-specific capital gain at the time of sale. This incremental value could be estimated as the gain in property value in OTR compared to a broader measure of property value changes in

the region, such as citywide or countywide. A complementary policy is to ask new developments to contribute some of their property, and therefore their prospective gift, in the form of land or units set aside at affordable rents through inclusionary zoning. While this is not the place for a detailed policy proposal, City Council and the mayor could easily find models of how such betterment fees and taxes and inclusionary zoning have been successfully structured elsewhere.

Such a policy ties private gains to public ends by insisting that those who have been given a gift by the public, including the very taxpayers who are increasingly displaced, share their gain in ways that serve the public good of a mixed-income communi-

ty.

Time is short as development pressures sweep away the longtime residents of Over-the-Rhine. Reclaiming some of the private property wealth to fund low-income housing preservation and development is a tool whose time has come. It is urgently needed if we are to marshal the resources to make good on the oft-stated value of mixed-income neighborhoods.

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