Tax & Budget

LOCAL TAX ABATEMENT IN OHIO: A FLASH OF TRANSPARENCY

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For the first time, governments across Ohio and the country are reporting the cost of tax abatements they grant for economic development. The information is required under a new rule by the nonprofit that sets national financial reporting standards for governments, the Governmental Accounting Standards Board (GASB). It has been dribbling out since last spring and will continue as governments report further on calendar 2016 and later fiscal years. This promises a new era of transparency for corporate tax breaks, but public officials and residents alike must demand that Ohio make the most of the opportunity. In Ohio, some governments are taking the requirements more seriously, while the auditor of state is not maximizing the transparency offered by the new rule.

The new GASB standard covers tax abatements in which tax revenue is reduced because of an agreement between a government and a taxpayer. Generally, it applies when a government agrees to forgo revenue, and the taxpayer promises in return to do something that contributes to economic development or otherwise benefits the government or citizens. Policy Matters Ohio reviewed the disclosures made by 59 counties and 84 cities, villages and townships to start the process of learning from this new tool, known as GASB Statement No. 77. The 10 largest counties reported a total of $25.8 million in abatements for 2016 under the new rule; more than half of that was in Franklin County, the state's largest.

Some governments don't mention the rule at all in their 2016 financial statements, the first year in which it was required. While they may be technically in compliance with the GASB rule, this weak approach defies the spirit of the rule. Ohioans should be able to look at local government financial reports and know what abatements are costing. If it's costing nothing, government should say so – and explain why if there are abatement agreements.

Other elements in the standard have been widely disregarded. These include the requirement to disclose commitments beyond tax reductions made by governments as part of abatement agreements, and provisions for recapturing abated taxes, often known as clawbacks.

The GASB rules are important in part because tax abatements can cause substantial revenue reductions. Statewide, real property valued at more than $10 billion was abated as of 2015, according to the Ohio Department of Taxation. A rough calculation suggests this could cost government across Ohio as much as $600 million a year. Cuyahoga County calculated that county-wide, taxes abated for local governments and schools amounted to nearly $96.4 million in 2016 – $60.6 million of that for schools, $34.2 million for the Cleveland Municipal School District alone. These county figures don't necessarily correspond to what individual governments report – in particular, they include certain abatements not currently subject to the GASB reporting requirements – but they give an idea of the revenue at stake.

Some governments did not report on all required elements. Others went beyond requirements. The tiny Southwest Ohio village of Silverton reported on its two abatements, exceeding requirements to include information on how long they last, describing commitments made by the recipients, and explaining that there were no recapture provisions. Montgomery County listed individual job and investment commitments by companies in four communities that used enterprise zones; Hardin County included the proportion of property tax abated, length of the abatement, scope of the project, number of new employees, estimated annual payroll, and 2016 tax savings for the company. Franklin County described how abatements had affected specific government agencies. Some cities also went beyond requirements – Marysville listed taxes abated for each of nine companies, while Bedford included the amounts paid to the Bedford City School District under abatements that require sharing of municipal income tax.

The auditor may require any information he considers proper in local government financial reports. So far, Auditor Dave Yost has not seized the opportunity to spur local governments to provide the maximum transparency the new standard can help achieve or to make the data widely and easily available. Though his office provided information on implementing the standard, it falls well short of the openness the new standard could bring. In New Mexico, the state auditor delivered a spreadsheet to every local government and instructed them to complete it, including such information as the names of subsidy recipients. The state auditor's office there promised it will collate the results and post them online.

RECOMMENDATIONS

Ohioans should demand that local government provide all the information GASB requires. Local governments should emulate those like Silverton that went beyond requirements. That includes naming individual recipients of each abatement and describing how long it lasts.

The Auditor of State should publicly announce a commitment to the fullest possible disclosure of tax abatements and adopt practices to achieve that. Those include ensuring all official full-year financial statements have a clear section on abatements, providing every local jurisdiction required to report under the GASB standard with a spreadsheet to complete and submit, encouraging local governments to go beyond the minimum requirements, and posting all local government reports on the auditor web site in easily downloadable form. Candidates for auditor in next November's state-wide election should discuss their intentions for strengthening tax abatement disclosure.

So far, the newly required reporting provides just a taste of what Ohioans should expect from this new rule. Forthcoming reports from school districts, which forego most of the revenue from property tax abatements, will provide more clues on what the new requirements deliver. Ultimately, this new tool will be useful to the degree public officials make it so.