TAX ABATEMENTS COST OHIO SCHOOLS AT LEAST $125 MILLION

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Property tax abatements caused 180 school districts across Ohio to forgo $125.6 million in revenue, according to district financial reports issued for the 2017 fiscal year. With $43.8 million, or a little more than a third of that amount, schools across the state could refill the positions of 662 librarians whose positions were eliminated between the 2005-2006 school year and 2016-2017. That shows that while the forgone revenue from tax abatement is relatively small compared to total K-12 spending, it’s still quite meaningful.

The reports are the first of their kind under a new rule by the nonprofit that sets financial accounting standards for local governments, the Governmental Accounting Standards Board (GASB). The new GASB standard covers tax abatements in which tax revenue is reduced because of an agreement between a government and a taxpayer. The standard covers governments that use Generally Accepted Accounting Principles (GAAP), which includes most school districts in the state. Though they can’t abate taxes themselves and don’t have to report the same details as those that do, school districts must report abatements that are approved by other governments and affect their revenue.

A substantial share of the data in this study was collected by Good Jobs First, a national nonprofit that focuses on accountability for tax breaks. Policy Matters Ohio also reviewed school districts’ financial reports. Altogether, we reviewed reports from 464 of the state’s 608 districts, of which 180 disclosed specific amounts of abatements. Most of the disclosures report on property tax abatements under two major such programs available under state law, the Enterprise Zone (EZ) and Community Reinvestment Area (CRA) programs. The district reports we reviewed include all 100 of the state’s largest districts and a majority of Ohio’s public-school students. The abatements came about because of the action of cities, villages, counties and townships, but schools, which receive nearly two-thirds of Ohio’s property-tax levies, forgo the most revenue when such taxes are abated.

Though the data omit a substantial amount of tax abatement, they allow a partial look at the impact on schools across Ohio. Cleveland had by far the largest total, at more than $34.2 million, followed by Cincinnati, at almost $18.4 million. While most of the 25 districts reporting the biggest amounts are among the state’s larger school systems, the list also includes much smaller districts such as Warrensville Heights, Garfield Heights and Rossford. Most of the top 25 districts reported receiving compensation from local governments for abatements. These 25 accounted for $99.4 million in forgone revenue, or nearly four-fifths of the total. They are scattered across six metro areas, though none are in the Akron or Canton areas and just one is in Youngstown. Twenty-two of the 25 experienced revenue losses of at least $1 million.

Cleveland and Cincinnati together accounted for most of the reported abatements among the Big 8 urban districts. The Canton City district reported that it had implemented the new standard, but that it did not have any “material” abatements. Akron did not report, but told Policy Matters that the single abatement there was immaterial to its financial statements. The six cities that reported abatement amounts accounted for $58.5 million in total.
Altogether, abatements in school districts in Ohio’s eight largest metro areas accounted for a total of nearly $120 million in forgone revenue last year, the overwhelming share of abatements in the 464 districts covered in this report. Together, these metro areas include 311 districts. Another 153 districts outside the eight metro areas accounted for less than $6 million in abatements in Fiscal Year 2017. Overall, 69 of the 100 districts with the largest student enrollment reported specific forgone revenue.

The total of $125.6 million reported in forgone revenue does not include significant abatements that GASB does not require to be reported. Mostly excluded from the standard is tax increment financing, under which payments that result from the increased value of a development are diverted for a time for other uses. The data also are understated because many districts haven’t reported on details of other abatements that affect them. Most of the 284 districts that did not report tax abatement amounts said that they had implemented the new reporting standard, but that it had no effect on their financial position, or that it had no material effect. Indeed, GASB standards “relate only to significant (material) amounts,” GASB notes, and it does not provide specific guidance on what that means. This represents an unfortunate gap in the GASB standard.

Under the new GASB rule, school districts are supposed to report compensation that they receive from governments that abate taxes (‘abating governments’) to make up for lost revenue. Ohio law includes a number of provisions that often entitle school districts to such compensation, as well as requirements for school board approval of many abatements. At least 42 districts reported receiving specific compensation from abating governments to make up for lost revenue. Altogether, these districts reported $18.4 million in compensation, compared to abatement amounts of $54.8 million. However, reporting of such compensation is not always complete. The Cincinnati district, which receives an annual payment from the city of $5 million to make up for taxes lost to abatement as part of a 20-year agreement, did not specifically disclose that in its GASB 77 note. The district told Policy Matters Ohio that it will address this in next year’s financial statements. The net impact on districts across the state also is cloudy since a district’s state aid depends on its property taxes. State aid may increase if property values are reduced, yet is unaffected by payments in lieu of taxes that districts may receive.

The overwhelming majority of schools have adopted the standard and said so in their official financial statements, a positive step for transparency. However, that still leaves a picture that is woefully incomplete. The GASB standard doesn’t go nearly far enough in what it requires – and the state auditor should insist on consistent, uniform reporting that would add clarity. The auditor should publicly announce a commitment to the fullest possible disclosure of tax abatements and adopt practices to achieve that. Candidates for auditor in November’s state-wide election should discuss their intentions for strengthening tax abatement disclosure. Beyond the general statements the major candidates have made, each should describe more specifically the additional steps they will take to make it happen. Recommendations for action by the auditor are included in the report.

Ohio law already provides school districts with the authority to approve many abatement agreements. A thorough assessment is needed to determine how school districts use these rights and if they provide appropriate protection. Another option: As some already have, local governments could consider excluding school districts from tax increment financing. Too often, school boards face the unpleasant choice of simply agreeing to new abatements or being perceived as opposed to economic development if they exercise their full rights and demand the best possible deal. While greater transparency won’t end this, it does allow for greater accountability.