Policy Matters Ohio

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Tax & Budget

Tax abatements cost Ohio schools at least $125 million

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Policy Matters Ohio

Executive Summary

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.

Policy Matters Ohio

Introduction

Property tax abatements caused 180 school districts across Ohio to forgo $125.6 million in revenue, according to financial reports the districts issued covering 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.[1] That demonstrates 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. Generally, it applies when a government agrees to forgo revenue, and the taxpayer promises to take specific action contributing to economic development or otherwise benefiting the government or citizens broadly.[2] Governments that abate taxes are required to disclose in notes to their financial statements the specific taxes being abated, the authority for doing so, and the criteria that make a recipient eligible. The report should include the amount abated under each program. 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.[3]

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.[4] 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. This study relies largely on school district financial statements, without additional explanation.

The district reports we reviewed include all 100 of the state's largest districts and a majority of the public-school students. The abatements came about because of the action of cities, villages, counties and townships, but schools, as the recipient of nearly two-thirds of Ohio's property-tax levies, are the ones that forgo the most revenue when such taxes are abated for economic development.[5]

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[1] *"Advanced Reports" (Ohio Department of Education, August 2018). Overall, schools across Ohio have reduced the number of librarians on their staffs by nearly 41 percent of that time frame. Forgone revenue from abatements in individual districts, of course, doesn't correspond directly with these cutbacks.*

[2] *Statement No. 77 of the Governmental Accounting Standards Board, Tax Abatement Disclosures, August 2015, at http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176166283745&acceptedDisclaimer=true*

[3] *Ibid, p. 4, Item 8. The GASB rule requires that entities that are affected by other governments' abatements must report the names of the governments that abated the taxes, the specific taxes that are being abated, and how much this reduced the reporting government's tax revenues. It also mandates reporting on amounts they receive from other governments in association with such forgone revenue.*

[4] *Policy Matters Ohio did not attempt to gather information from the remaining districts. Some, of course, did not report because they do not use Generally Accepted Accounting Principles and are not covered by the new standard.*

[5] *Tax abatements also impact other local governments, sometimes significantly. For example, levy-funded county health and human service agencies sometimes experience significant revenue challenges as a result of tax abatements. For more information on GASB 77's effects on local governments, see the earlier report, "Local Tax Abatement in Ohio: A Flash of Transparency," Policy Matters Ohio, Jan. 18, 2018, pp. 9-10, at https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/local-tax-abatement-in-ohio-a-flash-of-transparency*

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Glossary

The Governmental Accounting Standards Board (GASB) is a nonprofit based in Norwalk, Connecticut, that sets financial accounting standards for local governments. In 2015, it approved a new standard for the first time requiring reporting on forgone revenue from tax abatements. This is known as GASB Statement No. 77. Governments that use Generally Accepted Accounting Principles were mandated to start applying it starting in fiscal years beginning after Dec. 15, 2015. For most Ohio school districts, this meant their fiscal year ended June 2017 was the first time they had to implement the rule and report in their annual financial report.

Enterprise zones (EZs) and Community Reinvestment Areas (CRAs) are two of the major programs available to local governments to reduce taxes that would otherwise be due in order to support economic development. Each has its own rules, as described by the Ohio Development Services Agency.

Under Tax Increment Financing (TIF), payments on the additional value of a property undergoing development are diverted from the general fund for a period of time to uses exclusively within the TIF district, sometimes to build infrastructure supporting the development and sometimes for other purposes. TIFs have become the most widely used form of property tax abatement in Ohio, accounting for more than half of the total.

Abating governments may be cities, villages, townships or counties that make agreements with companies to reduce taxes that would otherwise be paid, generally in return for promised development.

New transparency

Though the data omit a substantial amount of tax abatement for reasons discussed below, they allow a partial look at the impact of such abatements on schools across Ohio. Data from the 25 districts among the 464 that reported the largest amount of forgone revenue are shown in Table 1. Cleveland had by far the largest total, at more than $34.2 million, followed by Cincinnati, at almost $18.4 million. While most are among the state's larger school systems, some much smaller districts also showed up on the list, including Warrensville Heights, Garfield Heights and Rossford. If the districts reported receiving compensation from local governments for abatements, we included that in the numbers in Table 1. Most of the top 25 received such compensation. All but Mansfield, No. 25 on the list, were located in one of the state's eight largest metro areas. 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.

Table 1	
School districts with the largest reported forgone revenue from tax abatement	
Top 25 School Districts by Forgone Revenue	Amount of Forgone Revenue
Cleveland Municipal Schools	$34,246,606
Cincinnati City Schools	$18,350,966
Warrensville Heights City Schools	$5,224,246
South-Western City Schools	$3,901,559
Westerville City Schools	$2,892,443
Troy City Schools	$2,743,693
New Albany-Plain Local Schools	$2,716,933
Columbus City Schools	$2,633,141
Olentangy Local Schools	$2,612,317
Garfield Heights City Schools	$2,451,343
Miamisburg City Schools	$2,269,684
Elyria City Schools	$2,192,671
Groveport Madison Local Schools	$2,112,260
Washington Local Schools	$1,691,808
Monroe Local Schools	$1,583,656
Hamilton Local Schools	$1,511,601
Solon City Schools	$1,409,789
Rossford Exempted Village Schools	$1,383,321
Shaker Heights City Schools	$1,262,017
Avon Local Schools	$1,202,158
Dayton City Schools	$1,157,341
Toledo City Schools	$1,144,603
Youngstown City Schools	$976,774
Euclid City Schools	$915,876
Mansfield City Schools	$824,518
TOTAL	$99,411,324

Source: Policy Matters Ohio analysis of Fiscal Year 2017 district filings with the Ohio Auditor of State, at https://ohioauditor.gov/auditsearch/Search.aspx. This includes compensation reported by many districts for forgone revenue.

Reports from the Big 8 urban school districts are shown in Table 2. Cleveland and Cincinnati together accounted for most of the reported abatements among the Big 8. 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 Ohio that the single abatement there was immaterial to its financial statements.[6] The six cities that reported abatement amounts accounted for $58.5 million in total.

[6] Email from Ryan Pendleton, treasurer and chief financial officer, Akron Public Schools, Sept. 26, 2018. The single abatement caused a loss of $194,628 in tax revenue to the Akron schools in Tax Year 2017, $97,314 or 50 percent of which was paid by the owner to the schools under a compensation agreement. Email received from David H. Seed, an outside attorney for the district, Sept. 26, 2018.

Table 2	
Reported forgone revenue in the Big 8 school districts	
School Districts in the Big 8 Cities	**Amount of Forgone Revenue**
Akron City Schools	--
Canton City Schools	--
Cincinnati City Schools	$18,350,966
Cleveland Municipal Schools	$34,246,606
Columbus City Schools	$2,633,141
Dayton City Schools	$1,157,341
Toledo City Schools	$1,144,603
Youngstown City Schools	$976,774
Total	$58,509,431

Source: Policy Matters Ohio analysis of Fiscal Year 2017 district filings with the Ohio Auditor of State, at https://ohioauditor.gov/auditsearch/Search.aspx. This includes compensation reported by many districts for forgone revenue.

Though the Columbus district reported a considerably smaller total than Cleveland or Cincinnati, the revenue loss for districts across metropolitan Columbus came close to the total in the Ohio portion of the Cincinnati metro area (only Ohio data was collected for this report, the Cincinnati area includes parts of Kentucky and Indiana). Altogether, as shown in Table 3, abatements 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. Clearly, abatements are concentrated in metro areas and in larger school districts.

Table 3	
Forgone school district revenue by metropolitan area	
Metropolitan Areas	Amount of Forgone Revenue
Akron	$2,094,171
Canton-Massillon	$518,798
Cincinnati	$25,333,976
Cleveland-Elyria	$53,766,965
Columbus	$22,424,156
Dayton	$8,553,838
Toledo	$5,595,268
Youngstown-Warren-Boardman	$1,390,244
TOTAL	$119,677,416

Source: Source: Policy Matters Ohio analysis of Fiscal Year 2017 district filings with the Ohio Auditor of State, at https://ohioauditor.gov/auditsearch/Search.aspx. This includes compensation reported by many districts for forgone revenue. Metropolitan areas are as shown at https://development.ohio.gov/files/research/P3002.pdf, including Ohio counties only.

Spotty reporting

The total of $125.6 million reported in forgone revenue does not include significant abatements that GASB does not require to be reported. Tax increment financing[7] (TIF) accounts for more than half of the property tax abatement in Ohio, but GASB does not require most of it to be reported—or reporting of payments that may be received in lieu of taxes to make up for lost revenue on TIF properties. While a small number of districts included TIF abatements, most didn't, so the school district reports may understate how much tax abatement is occurring. For instance, though it wasn't cited in the district's note on tax abatement in its financial report, *The Dayton Daily News* reported recently that the Dayton Public Schools didn't see about $1.22 million in abated taxes because of tax-increment financing there.[8] According to the attorney general's economic development manual, as of June 2016, the state's three most populous counties – Franklin, Cuyahoga and Hamilton – had a total of 526 active TIFs.[9]

The data also are understated because many districts haven't reported on details of other abatements that affect them. In some cases, this may be because they deem them to be insignificant. Take the Canton City Schools, which reported that it did not have any "material" abatements, based on information from the county auditor.[10] Most of the 284 districts that did not report tax abatement amounts said that they had implemented the new abatement 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.[11] This represents an unfortunate gap in the GASB standard.

At least 20 other districts did not mention the GASB rule in their financial report and did not disclose figures on abatement amounts. Asked about these omissions, the office of the state auditor said that districts don't have to provide a GASB 77 note if they have no agreements to evaluate, if the agreements don't meet the GASB 77 definition or if the dollar amount of the agreements is immaterial.[12] It said further that districts don't need to disclose a change in accounting principle in the first instance, and, "It is a matter of professional judgment whether it would be included" if the agreements don't meet the GASB definition or are considered immaterial. While these may provide technical justification for the lack of reporting, the omission of any mention of abatement should not be acceptable. Any Ohioan should be able to look at the financial report of their local school district and see what tax abatement is costing. If it's costing nothing, the district should say so – and explain how that is so if there are abatement agreements.

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[7] Under tax increment financing (TIF), payments on the additional value of a property undergoing development are diverted from the general fund for a period of time to uses exclusively within the TIF district, sometimes to build infrastructure supporting the development and sometimes for other purposes. GASB has said that such payments that are used to finance debt do not need to be separately disclosed in the GASB 77 footnote, but certain other TIF payments must be cited. According to the Ohio Department of Taxation, $5.4 billion of the $10.4 billion in real property covered by tax abatement in Tax Year 2015 was from TIFs. See Ohio Department of Taxation, "Assessed Valuation of Real Property Exempted by Tax Abatements, Tax Year 2015," at https://www.tax.ohio.gov/Portals/0/tax_analysis/tax_data_series/real_property/pe3/PE3CY15.pdf

[8] See Frolik, Cornelius and Jeremy P. Kelley, "Dayton leaders hope new deal with schools brings more businesses to the city," The Dayton Daily News, Aug. 7, 2018, at https://www.mydaytondailynews.com/news/dayton-leaders-hope-new-deal-with-schools-brings-more-businesses-the-city/FbANL64d7dBjMRhgHG0xrI/

[9] DeWine, Mike, Ohio Attorney General's Office, Ohio Economic Development Manual 2017, p. 139, at https://www.ohioattorneygeneral.gov/Economic-Development/Economic-Development-Files/Economic-Development-Manual.aspx

[10] Conversation with Jeffrey Gruber, treasurer, Canton City School District, July 30, 2018 and https://ohioauditor.gov/auditsearch/Reports/2018/Canton_Local_School_District_16-17-Stark.pdf

[11] Governmental Accounting Standards Board, "The Materiality Box: Why It's Important," at http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176168716224

[12] Email from Tracie L. McCreary, Chief Project Manager, Auditor of State, Aug. 21, 2018

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.[13] Under Ohio state law, abating municipalities that levy income taxes are required to provide such compensation when new employee payroll from a CRA, EZ or TIF project is $1 million or more a year.[14] The municipality must attempt to negotiate a compensation agreement, and if none is implemented, half of the income tax from new employees minus certain costs goes to the school district. Local governments must give advance notice to school districts when they are planning to enter into CRA, EZ or TIF agreements, and in most instances, if an abatement meets certain thresholds, school board agreement is required. For instance, if a TIF deal is going to last more than 10 years or exceed 75 percent, school boards have a right to reject it. In many instances, school districts and cities may reach broader agreements on abatements.[15] Toledo and Cincinnati, for instance, have such agreements, while in Dayton, the school district just approved a new, 10-year agreement with the city.[16]

At least 42 districts reported as part of their GASB 77 disclosures receiving specific compensation from abating governments to make up for lost revenue. Altogether, these districts reported getting $18.4 million in compensation, compared to abatement amounts of $54.8 million. Thus, compensation made up about a third of the abatements reported in these districts. However, reporting of such compensation is not always complete. A number of districts with more than a single abating government did not break out the amounts by jurisdiction, though the GASB requirement on this point is unclear. And Cincinnati did not explicitly report in its tax abatement note on an agreement negotiated with the City of Cincinnati in the 1990s under which it receives $5 million a year and other benefits, and the city can give certain tax breaks without school board approval.[17]

Apart from its GASB 77 note, the Cincinnati district reported "revenues in lieu of taxes" of $38.57 million. These monies are received, the report says, "via agreements with the City of Cincinnati, Hamilton County and certain townships that overlap the District, in an attempt to "make whole" tax revenues that were lost via abatements, enterprise zones or Tax Increment Financing plans created within their jurisdictions."[18] In response to questions from Policy Matters Ohio, the district said that these revenues include the $5 million from the city as part of the long-standing agreement.[19] Yet in the tax abatement section of its financial report, it omitted any mention of that and instead said: "The district is not receiving any amounts from

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[13] See GASB Statement No. 77, p. 4, Item 8 and pp. 25-6, Item B46. Ohio's auditor notes regarding school reports on such compensation that, "As with all GASB pronouncements, the provisions of GASB 77 need not be applied to immaterial items." Email from Tracie L. McCreary, Chief Project Manager, Auditor of State, Aug. 31, 2018

[14] See Ohio Revised Code Section 5709.82 and Handbook, County Commissioners Association of Ohio, Chapter 15, at https://ccao.org/wp-content/uploads/Chapter%2015%20Tax%20Abatement%2001%2029%2016.pdf

[15] Op. cit., Attorney General's Office, Ohio Economic Development Manual. The manual notes, "…it is common for companies and local school districts to enter into side agreements that provide for some level of payment in lieu of taxes to the local schools." At https://www.ohioattorneygeneral.gov/Economic-Development/Economic-Development-Files/Economic-Development-Manual.aspx

[16] Frolik, Cornelius and Jeremy P. Kelley, "Dayton leaders hope new deal with schools brings more businesses to the city," The Dayton Daily News, Aug. 7, 2018, at https://www.mydaytondailynews.com/news/dayton-leaders-hope-new-deal-with-schools-brings-more-businesses-the-city/FbANL64d7dBjMRhgHG0xrI/ and Jeremy P. Kelley, "Deal adds protections to Dayton school-city tax abatement pact," The Dayton Daily News, Aug. 21, 2018, at https://www.daytondailynews.com/news/deal-adds-protections-dayton-school-city-tax-abatement-pact/6zlSXHbAP3wcQB3ujMIXBP/ "The deal says DPS (the school district) will exempt 100 percent of taxes on certain commercial property abatements during the next 10 years, giving up the right to vote on individual projects," the newspaper reported. It also says that the school district will get 25 percent of the property tax that would have been owed, spells out specific due diligence that the city must perform before awarding tax incentives, and that the city will brief school officials on its due diligence "when appropriate or allowable."

[17] Agreement between the City of Cincinnati and the Board of Education of the City School District of the City of Cincinnati, July 2, 1999 and First Amendment to Agreement, Dec. 18, 2002

[18] Cincinnati City School District, Single Audit Reports, June 30, 2017, p. 33, at https://ohioauditor.gov/auditsearch/Reports/2018/Cincinnati_CSD_17-Hamilton.pdf

[19] The $5 million is a flat amount district received for various abatements covered under the agreement, which include some that it is required to report under the GASB rule and others that it isn't. The district received another $18.17 million in compensation payments for TIFs. Besides these amounts, it also received another $10.9 from Hamilton County under a separate agreement involving city stadiums and their tax-exempt status. The $38.57 million total also includes another $4.49 million that the district received from individual property owners, which is already figured into the figure it reported for forgone taxes. Emails from Brittany Marks, Director of Financial Reporting and Transparency, Cincinnati Public Schools, Oct. 1, 2018

this other government in association with the forgone property tax revenue." The district told Policy Matters Ohio that it has raised this point with its auditors "and we will address it in next year's financial statements." It is likely to reword its tax abatement note.[20]

Like the Cincinnati district, a number of others – including many of those with the most forgone revenue from abatements – reported separate from their tax abatement notes under the GASB 77 standard that they had received payments in lieu of taxes (PILOTs). Most often, this probably involves tax increment financing. The Columbus school district, for instance, reported payments in lieu of taxes because of TIF agreements totaling $59.6 million. Westerville reported $3.4 million. But since the GASB standard does not require reporting on most forgone revenues from tax-increment financing deals, one can't easily say how substantial the additional revenue loss, if any, is from the school district financial statements.[21] The net impact is even cloudier, since a school 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.

Recommendations

The new accounting standard sheds new sunlight on how tax abatements affect schools in Ohio. 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 even without any change in the standard. In New Mexico, the state auditor at the time the standard became effective delivered a spreadsheet to every local government in the state and instructed them to complete it, including the tax revenue forgone and any payments in lieu of taxes or similar compensation they have received from others.[22] Ohio's auditor should do the same.

Ohio law already provides school districts with the authority to approve many significant abatement agreements. These vary according to the kind of abatement, with differing thresholds for when approval is mandated. A thorough assessment is needed to determine how school districts use these rights, whether the array of varying requirements needs standardization and, most importantly, if it provides appropriate protection. Another option: As some already have, local governments could consider excluding school districts from tax increment financing, insulating them from revenue losses.

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.

Policy Matters Ohio previously has set forth recommendations on tax abatement disclosure as part of an earlier study on reports by local governments,[23] most of which would be useful for

[20] Ibid. The district also mistakenly said in its report that the tax abatement agreement under which it had forgone $18,350,966 was with the City of Deer Park, when it was with Cincinnati.
[21] Ibid. Since GASB does not require it, Cincinnati, for instance, did not attempt to calculate what its forgone revenue was from properties covered by TIFs.
[22] See New Mexico, Office of the State Auditor, "GASB 77 Disclosure Template for Audit Rule 2018," at https://www.saonm.org/state_auditor_rule
[23] Schiller, Zach, "Local Tax Abatement in Ohio: A Flash of Transparency," Policy Matters Ohio, Jan. 18, 2018, pp. 9-10, at https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/local-tax-abatement-in-ohio-a-flash-of-transparency

school districts as well. In addition, school districts should inform stakeholders whether they are protected when incentive requirements – for instance, job gains that have been promised – are not met. And in its own GASB 77 note, the state of Ohio should report what it spends in additional school aid to make up for local tax abatement losses.

As noted in our earlier report, the Auditor of State can play an important and positive role in taking advantage of the GASB 77 standard. The auditor should publicly announce a commitment to the fullest possible disclosure of tax abatements and adopt practices to achieve that, including to:

- Ensure that all school district Comprehensive Annual Financial Reports have a clear section on abatements. If they have no abatements, it should clearly say that. Not mentioning abatements will not be acceptable.
- Provide every school district required to report under the GASB standard with a spreadsheet and instructions to complete it.
- Demand consistency and completeness in school district reporting on compensation payments received to offset abatements that affect them, and require a full description of the terms of any agreements districts have with abating governments.
- Consider mandating that school districts report on forgone revenue from tax increment financing, in the interest of transparency and consistency across districts. Ask that they outline specifically how much they are receiving in compensation payments to offset forgone revenue from TIFs.[24]
- Augment the existing Summarized Annual Financial Reports currently shown on the Auditor's web site: https://ohioauditor.gov/references/summarizedreports.html. Aggregation of GASB 77 data in one place, available and downloadable from a web site, is critical to making the best, full use of the standard. The auditor should use the uniform spreadsheets provided to all school districts to provide the data. It should allow readers to easily see in one place how much abatements are in every reporting school district, including the most up-to-date figures.[25]
- Use data available from other state agencies, such as the Development Services Agency Department of Taxation, to make sure that abatements reported elsewhere are being fully reported in financial statements.

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 supporting robust reporting, each should describe more specifically the additional steps they will take to make it happen.[26]

[24] Asked whether the Auditor of State would consider this, his office responded: "One of the goals of GAAP reporting is to promote consistency and comparability of financial statements. We believe the current GAAP guidance can stand on its own. The financial statements are the responsibility of management, and if management chooses to add additional clarifying information, we will audit accordingly." Email from Tracie McCreary, Aug. 31, 2018.
[25] The auditor should also consider incorporating into its Summarized Annual Financial Reports for school districts key information that is already reported by local Tax Incentive Review Councils, which are required to report annually to the director of the Ohio Development Services Agency. See Section 122:4-1-08 of the Ohio Administrative Code.
[26] See Gongwer News Service, "Report Urges More Transparency On Local Tax Abatements," Jan.22, 2018.

The new GASB rule provides a peek, if still an incomplete one, at tax abatements that affect school districts across Ohio. Ohioans should make use of this new trove of information, while demanding that school boards and state and local elected officials take steps to fully implement the rule and provide maximum transparency.

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