Abating Our Future

How Students Pay for Corporate Tax Breaks

GOOD JOBS FIRST .ORG

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EXECUTIVE SUMMARY

Public school students in the U.S. suffered poorer schools—and local and state taxpayers paid higher taxes—in 2019 due to corporate tax breaks. Thanks to a new government accounting rule, we are able to prove that economic development tax abatements given to corporations cost public school districts at least $2.37 billion in foregone revenue in FY 2019. That is $273 million — or 13 percent— higher than two years before.

Across the country, 97 school districts lost more than $5 million each; 149 districts lost more than $1,000 *per student*.

Even though we looked at all 50 states and D.C., these dollar amounts come from only 2,498 school districts in 27 states, which represent about one-fifth of all the independent public school districts. For some of the states with no meaningful data, there are legitimate reasons, such as no independent reporting for school districts. However, as we detail, some dozen states are failing to ensure that school districts and other local government bodies are adhering to the new accounting standard.

In essence, they are either exploiting loopholes in the rule or ignoring it altogether.

With no way of knowing how much revenue school districts are foregoing in these data-absent 23 states and the D.C., it's clear the harm of abatements is far greater than we can yet prove.

Those costs reduced school budgets, forced states and localities to raise their tax rates to offset at least some of the difference, or some of both.

In some of the states with the most complete disclosures, it is evident that the poor pay more. That is, school districts with the highest rates of poverty (measured by metrics such as the share of students who qualify for free or discounted school lunches) are likely to suffer the highest losses.

And because U.S. poverty is racialized, this means that Black and Brown students often suffer the greatest losses. Indeed, Kansas City Public Schools Superintendent Dr. Mark T. Bedell recently called tax abatements "systemic racism."

We hasten to add that these tax abatements are, in most states, granted by city or county governments, *not* by school boards. Even though state equity formulas try to offset the resulting losses, tax abatements effectively amount to what we call an "intergovernmental free lunch," in which one body of government gets to spend another body's revenue — a structural flaw that invites over-spending and defeats accountability.

Put another way, local school leaders not only have no say in whether their money should be given away, they often don't even realize it's happening.

This 2017-2019 surge in spending on corporate tax breaks also occurred *despite* the strong economic growth the U.S. enjoyed in that pre-pandemic time span. (Most school districts' FY 2019 calendars ended June 30, 2019.) Indeed, the nation's unemployment rate fell to record post-war lows during our study period.

We stress again: The $2.37 billion figure is a conservative summation based on incomplete data. Supposedly, all school districts that use the Generally Accepted Accounting Principles (GAAP) — set by the Governmental Accounting Standards Board (GASB) — should report tax abatements. Though a minority of states do not require their school districts to follow GAAP, many of those districts still do use GAAP accounting, as Wall Street prefers it for rating bonds. Most states *do* mandate school districts to comply with GAAP, so when their abatement data is missing, we attribute this to either poor state oversight (state auditors, comptrollers or treasurers normally enforce such rules), loopholes in how "tax abatements" are defined by GASB (or how those definitions have been specified in GASB's annual Implementation Guides) or erroneous interpretations by government agencies as to when the statement must be included.

These definitional loopholes, or ambiguities of GASB Statement No. 77 ("GASB 77") — especially regarding tax increment financing (or TIF) and Industrial Development Bonds (or IDBs) — are allowing some of these economic development tax expenditures to go unreported. We detail external evidence of these problems in several states. In other states, foregone revenue is offset through an increased local levy or by state aid. These states argue that GASB 77 does not apply to them because there was no foregone revenue to the districts themselves; instead *all* taxpayers contribute to the subsidy payouts.

We present in-depth case studies on five states with complete data:

- Missouri, where tax increment financing (TIF) proliferates, diverting much-needed revenues away from school districts.
- Louisiana, where three of the poorest districts — located in the parishes of West Baton Rouge, St. James, and St. John the Baptist — not only suffered sizeable foregone revenue in 2019 but also large increases from 2017. Indeed, teachers in East Baton Rouge made national news in 2019 when they voted almost unanimously to walk out if the parish school board granted another abatement to ExxonMobil.
- New York, where we found statistically significant association between greater tax abatements and higher shares of Black and Hispanic students, after controlling for district size or total enrollment.
- South Carolina, where six school districts each lost more than $2,000 *per pupil* (and four of those have Black + Brown student majorities), while total state losses soared by 31 percent to $423 million in FY 2019.
- Texas, where 18 school districts lost more than $6,000 per pupil and another 34 districts lost more than $1,000 per pupil.

In our conclusion, we make seven recommendations to the states and two suggestions to the GASB itself:

The best, most equitable solution is for states to shield school revenues entirely from abatement programs. They can simply rewrite their incentive-enabling laws to exclude from abatements those shares of local property and sales taxes that would normally be apportioned to K-12.

Short of that, we recommend that states cap the share of each locality's property and sales tax base that can be abated in the name of economic development, and at a very small share, such as two percent. We also recommend caps on dollars per student that can be abated, at $200 annually.

Short of an absolute shield or tight caps, we recommend that states give school boards control to opt in or out of tax-break deals (i.e., to give them equivalent powers enjoyed by cities and counties).

We also recommend four actions by the states now to ensure compliance with GASB 77. They should create clear authority and mechanisms (led by a state auditor, comptroller, treasurer, or education department) to periodically review the financial reports issued by school boards, and if, necessary, correct them. They should require that all localities include a GASB 77 note in their financial reports, whether they have reportable abatements or not. They should require localities to disclose even "immaterial" abatement costs (rather than allowing arbitrary definitional decisions). And they should require all governments that are actively making abatement agreements to compute and report the costs of such deals to all affected jurisdictions in plenty of time for inclusion in annual financial reports.

To the GASB itself, we urge it to start over on tax increment financing (TIF) and issue a clean new Statement that treats all three forms of TIF as reportable abatements akin to those clearly covered by GASB 77.

We also urge the GASB to finish the process it began in 2018 and openly declare that property tax abatements that are bundled with Industrial Development Bonds (IDBs) *are* abatements covered by GASB 77.

These safeguards reflect what Good Jobs First has learned since we first explored the tension between abatements and school funding in 2003, and in our many blogs, articles, and studies since GASB 77 was issued in 2015.

Communities cannot determine if tax abatements given to corporations in the name of economic development are worth the price if they don't know the costs, especially to education.

1. INTRODUCTION: THE TENSION BETWEEN TAX INCENTIVES AND PUBLIC EDUCATION

1.1 The Harm of Corporate Tax Abatements

Public education is both the most expensive local public service *and* the most powerless to protect itself from corporate tax abatements. Property taxes are both the most expensive tax most companies pay *and* they are the largest single source of funding for K-12 education (Table 1.1: they supply about 29 percent on average, or three-fifths of all local funding).

That's why tax abatements — which usually involve property taxes, but may also apply to local shares of sales taxes and other fees — are so injurious to schools *and* so desired by corporations. Yet they are the most preferred tool for local economic development used in most states.

Table 1.1 K-12 Revenue by Source, as Percentage of Total Revenues

	LOCAL			
	All Local	Property Tax	STATE	FEDERAL
Alabama	34.8%	15.5%	55.0%	10.3%
Alaska	22.1%	N/A	63.9%	14.0%
Arizona	40.8%	31.1%	46.3%	12.9%
Arkansas	37.4%	7.9%	51.7%	10.9%
California	35.8%	24.1%	55.6%	8.6%
Colorado	49.9%	40.6%	43.5%	6.7%
Connecticut	58.2%	0.0%	37.6%	4.2%
Delaware	35.9%	25.9%	58.0%	6.2%
D.C.	90.6%	N/A	N/A	9.4%
Florida	49.8%	40.5%	39.1%	11.0%
Georgia	45.3%	29.2%	45.7%	9.0%
Hawaii	2.0%	N/A	89.1%	8.9%
Idaho	24.2%	20.6%	66.1%	9.7%
Illinois	55.6%	47.5%	38.0%	6.4%
Indiana	30.6%	19.4%	62.0%	7.4%
Iowa	41.4%	30.4%	51.9%	6.7%
Kansas	30.4%	16.8%	61.4%	8.2%
Kentucky	33.8%	25.1%	54.7%	11.5%
Louisiana	45.8%	18.0%	41.7%	12.5%

Maine	55.6%	27.8%	37.9%	6.4%
Maryland	50.7%	N/A	43.6%	5.7%
Massachusetts	58.6%	0.0%	37.1%	4.3%
Michigan	34.6%	24.9%	57.4%	8.0%
Minnesota	29.2%	18.3%	65.5%	5.3%
Mississippi	35.2%	29.2%	50.7%	14.1%
Missouri	59.4%	37.2%	32.2%	8.4%
Montana	41.7%	26.1%	46.4%	11.9%
Nebraska	60.3%	48.7%	32.2%	7.6%
Nevada	54.9%	24.5%	36.3%	8.8%
New Hampshire	63.6%	48.6%	31.2%	5.2%
New Jersey	57.3%	44.4%	38.6%	4.0%
New Mexico	18.7%	14.1%	67.2%	14.1%
New York	100.0%	53.8%	0.0%	0.0%
North Carolina	27.6%	N/A	61.6%	10.8%
North Dakota	34.3%	23.2%	56.7%	9.0%
Ohio	52.1%	39.1%	40.8%	7.1%
Oklahoma	41.6%	31.8%	47.4%	11.1%
Oregon	40.7%	32.6%	52.0%	7.2%
Pennsylvania	58.9%	39.3%	34.9%	6.2%
Rhode Island	51.4%	4.3%	41.4%	7.2%
South Carolina	42.2%	31.7%	49.1%	8.6%
South Dakota	53.3%	45.6%	34.0%	12.7%
Tennessee	42.7%	0.7%	45.8%	11.5%
Texas	52.2%	47.5%	37.7%	10.1%
Utah	37.1%	29.8%	55.0%	8.0%
Vermont	20.6%	0.1%	74.4%	5.0%
Virginia	54.2%	N/A	39.0%	6.7%
Washington	30.9%	25.6%	62.3%	6.8%
West Virginia	34.5%	32.3%	54.2%	11.2%
Wisconsin	49.2%	33.1%	44.1%	6.6%
Wyoming	34.8%	25.2%	59.1%	6.1%
NATIONWIDE	**48.2%**	**29.5%**	**44.1%**	**7.7%**

Source: National Center for Education Statistics: 2016-2017 School District Finance Survey

As we first detailed in a 2003 study[1], and as we detail here in some of our case studies, when states legally enable tax abatements, they typically give control to grant them solely to cities or counties, even though school districts are the biggest losers. (We call this "an intergovernmental free lunch.") The extent to which state K-12 equalization formulas help offset those harms varies greatly, but rarely are school budgets made whole. And to whatever degree the harms are offset, it's because other taxpayers are making up the difference.

If subsidized economic development projects occur and succeed in creating economic growth, two things happen. First, due to abatements, tax revenues are foregone. Second, job takers arrive and raise the population, creating more demand for education, public safety, public health, and infrastructure. Those costs are either borne by higher tax rates on everyone but the business receiving the tax abatements, or the quality of public services declines, or some of both.

Abatement deals can last for decades. And in economic recessions, state aid to schools is reduced, so the impact of local tax abatements further strains per-student spending. For states that have yet to restore pre-Great Recession K-12 per-student spending levels, the harm of tax abatements can become chronic.

However, as we also noted in our 2003 study, quantifying these harms was nearly impossible then. One would have had to piece together the abatement award records from multiple abatement-granting agencies and then obtain property values, tax rates, and revenue-sharing information from the county tax assessor to calculate the amount of abated taxes, and then the schools' share of lost revenue.

That all changed when the Governmental Accounting Standards Board (GASB) issued Statement No. 77 on Tax Abatement Disclosures, widely adopted by state and local governments as of FY 2017 (See Appendix C for background on GASB and Statement No. 77.). Nowadays, all jurisdictions that adhere to GASB's Generally Accepted Accounting Principles (GAAP) must, if they have any abatement-driven revenue losses, include a Note in their annual financial reports stating how much tax abatement programs affected their tax revenues—even when those abatements were granted by a different government body.

Three-fourths or more of the nation's independent school districts adhere to GAAP for one or more reasons. Most states require the districts to use GAAP. Some districts use GAAP to obtain the best possible credit rating (and therefore the lowest interest rate) when they issue bonds. And some school districts must use GAAP because they receive $750,000 or more per year from the federal government.

GASB 77 (as this transformative new accounting rule will henceforth be referred to in this report) is far from perfect, but it takes us one big step closer to revealing the true cost of economic development tax incentives.

1.2 Measuring the Revenue Impact of Abatements with GASB 77

GASB 77[2] has generated valuable, place-specific data over the last three years on local tax expenditures, albeit unevenly among and even within some of the states. According to the Statement, a "tax abatement" is defined as:

> *A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.*

As will be discussed shortly, this definition unfortunately fails to capture some abatements that go by other names.

School districts showcase the usefulness of building tax incentive spending into financial reporting because under GASB 77, each affected government is required to report its own portion of the foregone revenue, whether the abatement was awarded by itself or by other entities:

> *The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.*

This means that, for example, if a county enters into agreements that resulted in reduced tax revenue for all taxing jurisdictions within it, then any school district, library district, fire district, or community college district that reports its finances independently from the county, but lost revenue to the abatement program, would have to report how much *less* tax revenue *it* got due to the county's agreements. And if, for example, a school district is affected by agreements entered into by multiple governmental entities, it needs to account for all of the foregone revenue.

GASB 77 has presented us with an unprecedented opportunity to document the impact of tax abatements on public education. We have seized upon this opportunity and extracted the data from 10,370 audited financial statements of school districts in the 50 states and D.C. The results presented in the next chapter account for virtually *all* foregone revenue that was reported nationwide in FY 2019. Even though not all states have robust disclosures (for example, some do not have independent school districts), we were able to do in-depth analyses of five states that do have reliable data.

But our research also reveals substantial deficits in the implementation of GASB 77. For all the promise it holds, the Statement falls short in several key areas and has contributed to governments' under-reporting.

One serious deficit is that the current definition of "tax abatements" excludes the dominant form of tax increment financing (TIF). TIF districts are special redevelopment areas in which any growth in property tax from a predetermined baseline, called the "tax increment," is diverted to pay off bonds that subsidize the development. Currently, governments only need to report increments that are used to reimburse the developers directly, not those paying for infrastructure or its debt service, even though such uses may disproportionately (or solely) benefit single businesses or developers.

GASB has also not made a ruling on a grey area created by Industrial Development Bonds (IDBs). A common financing tool, IDBs are also used to circumvent some states' constitutional "gift clauses," which prohibit governments from gifting public funds to private entities. The bonds are issued by a government to finance the acquisition of property and equipment. The government holds the title to the property (thus making it tax-exempt), renting it to the recipient company in an amount equal to the bond debt service. The company thus enjoys a property tax abatement, since the facility is publicly owned and thus off the property tax rolls.

There is no reason to exclude IDBs or any TIF from the definition of tax abatements. According to GASB,

> *A transaction's substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purposes of this Statement.*

TIFs and IDBs work like tax abatements as they divert or exempt public revenues for the benefit of select private taxpayers. Their exclusion from the definition of "tax abatement" means that there is still a substantial amount of foregone revenue unaccounted for in the figures we obtained. That said, we applaud localities in states such as Georgia, Missouri, and New York, many of which ignored these definitional problems and reported IDB-related abatement losses.

Finally, some states lack central oversight to ensure compliance. Instead, they rely on the individual school districts and their private accounting firms to make the judgement about what to report on abatements. If this judgement is in error, there is no mechanism for correcting it.

In spite of these inadequacies, GASB 77 has provided us with more information than ever before and enabled analyses previously not possible. We present our findings in Chapters 2 and 3 and discuss problems and solutions in Chapter 4 and 5.

2. KEY FINDINGS: SUMMING UP KNOWN SCHOOL REVENUE LOSSES

In FY 2019, about one-fifth of America's public school districts disclosed reportable tax abatements under GASB 77. Their total "gross" foregone revenue — before offsets such as Payments in Lieu of Taxes, or PILOTs, where some companies pay a small fee to cushion the harm — came to $2.88 billion. The offsets totaled just over $500 million.[3] So the "net" reported revenue loss was $2.37 billion.

This is an increase of $273 million — or 13 percent — from what we found in FY 2017 disclosures, when most districts reported abatements for the first time.

Among the 1,806 districts that lost at least some revenue to tax abatements, the impact is very uneven. Ninety-seven of them lost more than $5 million each. And 149 of them lost more than $1,000 *per student*.

Across the country, there are 13,074 local public school districts[4], according to the latest data (2018-2019) from the National Center for Education Statistics. About 1,000 of those do not produce audited financial statements or comprehensive annual financial reports (CAFRs); many others have not yet issued or posted their FY 2019 audits. In the end, we collected 10,370 FY 2019 audited financial statements or CAFRs (see Appendix B for more details), which cover at least 90 percent of all districts that produced audited financial reports that year.[5] Among these, 2,498 included a Statement No. 77 Note on tax abatement disclosures; these districts will hereafter be referred to as "GASB 77 reporters."

Of those, 1,806 districts — nearly three-fourths of the GASB 77 reporters — reported net lost revenue in FY 2019 totaling $2.37 billion.

The total misses nearly half the nation's population because only 27 states have any tax abatement data, and even within those states, reporting is sometimes sparse. Among the states with no *reported* losses are California (home to more students than any other state), Colorado, Tennessee, and Wisconsin. Most of these states have tax abatements but failed to report them.

In 23 states and D.C., we have no abatement data to compile because either: school districts are not independent taxing entities; school taxes are shielded; the state uses a set of accounting rules different than GASB's GAAP; local governments cannot or do not grant abatements; or worse — school districts are failing to comply with GASB 77 or because definitional ambiguities in GASB 77 have caused some school officials to believe their abatements need not be reported. We explore these missing-data problems in Chapter 4.

Table 2.1 Total reported foregone revenue in FY 2019 by state

	FY19 NET FOREGONE REVENUE ($)	NO. OF FY19 FINANCIAL REPORTS EXAMINED	NO. OF DISTRICTS REPORTING GASB 77 IN FY19	ABSOLUTE CHANGE FROM FY17 ($)*	NOTES
Alabama	0	119	1		[1]
Alaska	0	40	0		
Arizona	0	122	0		
Arkansas	0	234	0		
California	0	960	1	-354,462	
Colorado	0	93	1	-344,399	
Connecticut	0	17	0		[2]
Delaware	0	0	0		[3]
D.C.	0	0	0		[4]
Florida	0	67	0		[5]
Georgia	109,366,686	166	71	6,212,695	
Hawaii	0	1	0		[6]
Idaho	478,487	99	3	478,487	
Illinois	59,213,211	682	67	9,583,309	
Indiana	0	101	0		[7]
Iowa	27,202,604	330	297	4,208,466	
Kansas	16,004,980	116	6	2,006,739	
Kentucky	569,744	173	3	569,744	
Louisiana	269,012,550	66	44	83,121	
Maine	0	57	0		[8]
Maryland	0	24	0		[9]
Massachusetts	0	49	0		[10]
Michigan	65,959,915	542	387	-40,408,591	
Minnesota	56,598	294	5	23,595	
Mississippi		107	3		[11]
Missouri	130,623,834	405	135	38,263,903	
Montana	1,512,582	86	12	1,435,989	[12]
Nebraska	8,454,140	244	46	3,375,765	
Nevada	35,612,846	16	12	-25,294,101	
New Hampshire	0	0	0		[13]
New Jersey	76,696,028	562	121	25,357,586	
New Mexico	7,146,074	87	82	-524,801	
New York	377,341,647	655	409	-12,487,797	[14]
North Carolina	0	115	0		[15]
North Dakota	9,238,310	90	7	4,745,507	
Ohio	134,663,982	580	252	5,544,452	
Oklahoma	12,305,870	510	14	-3,443,900	
Oregon	108,954,890	176	89	-12,009,992	
Pennsylvania	187,218,527	473	94	59,329,416	

Rhode Island	0	4	0		[16]
South Carolina	422,955,343	81	75	99,043,555	
South Dakota	122,000	136	6	10,000	
Tennessee	0	139	0		[17]
Texas	290,379,617	1,002	186	102,108,991	
Utah	3,509,577	41	1	-434,966	
Vermont	0	0	0		[18]
Virginia	0	20	0		[19]
Washington	8,979,913	187	33	1,105,190	
West Virginia	7,429,180	55	33	4,270,255	
Wisconsin	0	212	1		
Wyoming	0	35	0		
TOTAL	**2,371,110,518**	**10,370**	**2,498**	**272,555,139**	

* displayed only for states with GASB 77 data in both years

[1] In Alabama, property and sales tax for educational purposes cannot be abated.

[2] Connecticut is a New England state. Only the 17 regionalized school districts (out of 169 local districts) produce financial reports. None contains GASB 77.

[3] In Delaware, school districts are managed by state agencies and do not issue independent financial reports.

[4] D.C. Public Schools does not produce its own financial reports.

[5] In Florida, taxes for school districts are shielded cannot be abated.

[6] Hawaii has only one school district and it is managed by the state.

[7] Indiana's school districts use the standards set forth by the Indiana State Board of Accounts instead of GAAP.

[8] Maine is a New England state. Only the 57 regionalized school districts (out of 256 local districts) produce financial reports. None contains GASB 77.

[9] In Maryland, school districts issue financial reports, but they are component units of counties. Furthermore, school taxes cannot be abated.

[10] Massachusetts is a New England state. Only the 49 regionalized school districts (out of 324 local districts) produce financial reports. None contains GASB 77.

[11] The three reporting districts provided only the PILOT received, not the amount of taxes abated.

[12] Montana has 402 school districts, but the elementary school district and high school district in the same locality produce a single financial report. Many districts are small and thus not required to produce financial audits.

[13] New Hampshire is a New England state. All but two districts are part of supervisory unions. They do not produce financial reports.

[14] The analysis excludes school districts in New York City as they are component units of the city and do not produce financial reports.

[15] In North Carolina, local tax abatements are not permitted under state law.

[16] Rhode Island is a New England state. Only the 4 regionalized school districts (out of 36 local districts) produce financial reports. None contains GASB 77.

[17] In Tennessee, school districts issue financial reports, but they are component units of municipalities.

[18] Vermont is a New England state. All of its school districts are managed by supervisory unions.

[19] In Virginia, only 20 out of the 132 local school districts produce financial reports. None contains GASB 77.

Table 2.1 shows the total reported foregone revenue for each state. These are *net* figures obtained by subtracting any reported offsets such as PILOTs or state reimbursements from the *gross* amount of taxes abated. The table also shows for each state the number of financial reports examined, the number of GASB 77 reporters, and the absolute dollar change from FY 2017.

The top 10 "losers," by state, are shown in **Table 2.2**. South Carolina tops the chart at $423 million, followed by New York (excluding New York City) at $377 million, Texas at $290 million, and Louisiana at $269 million. Several of these states also reported the largest increases since FY 2017: South Carolina had a $99 million increase in foregone revenue, and Texas lost $102 million more over the two-year span.

Table 2.2 Top Ten "Loser" States in FY 2019

Rank	State	FY19 Net Foregone Revenue ($)	FY19 Per-Pupil Foregone Revenue ($) *
1	South Carolina	422,955,343	563
2	New York	377,341,647	242
3	Texas	290,379,617	57
4	Louisiana	269,012,550	421
5	Pennsylvania	187,218,527	120
6	Ohio	134,663,982	85
7	Missouri	130,623,834	148
8	Georgia	109,366,686	63
9	Oregon	108,954,890	192
10	New Jersey	76,696,028	60

* computed by dividing the foregone revenue by the state's total enrollment (i.e. enrollments in all districts, not just the districts that were affected by tax abatements)

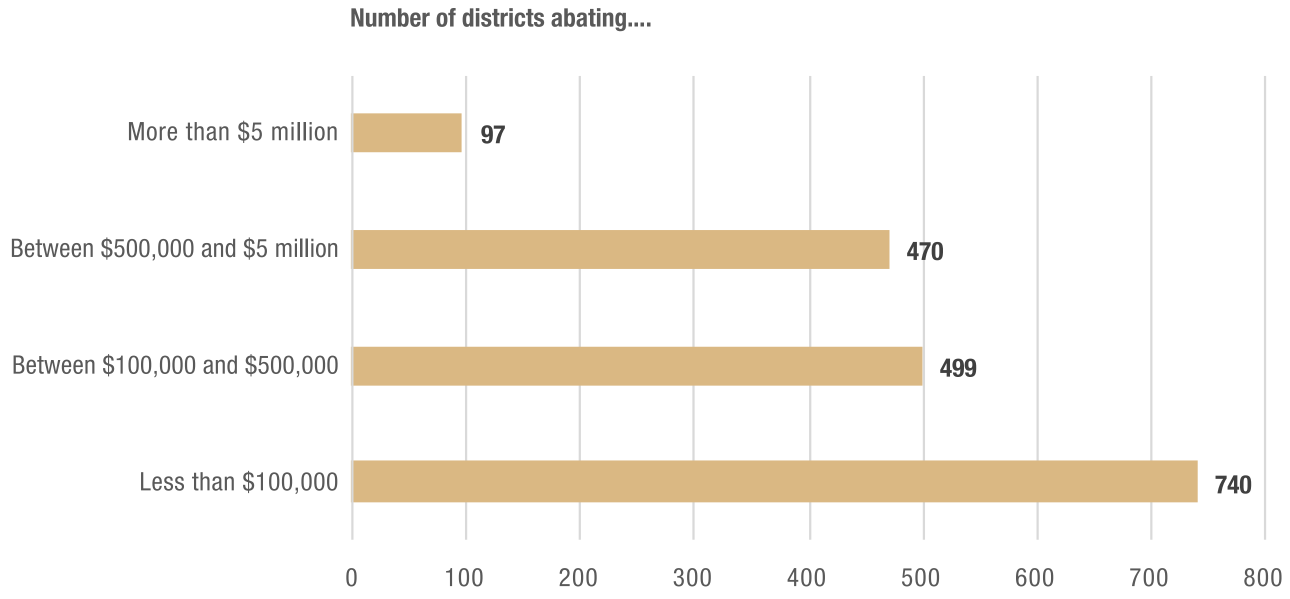
In addition to the largest total and a staggering 31 percent increase, South Carolina also had the highest statewide per-pupil revenue loss, obtained by dividing the total tax abatements by total enrollments (**Table 2.2**).

The top ten revenue losers, by district, are shown in **Table 2.3**. The Philadelphia City School District reported the highest net tax abatement at $112 million, which is greater than many state totals. **Figure 2.1** shows the distribution of individually reported single-year revenue losses. In FY 2019, 97 districts had more than $5 million of their taxes abated; 39 lost more than $10 million.

Table 2.3 Top Ten "Loser" Districts in FY 2019

	Reporting district	FY 2019 Net Foregone Revenue ($)	2018-2019 Total Enrollment	Per-Pupil Foregone Revenue ($)
Pennsylvania	Philadelphia City School District	112,000,000	128,647	871
Oregon	Hillsboro School District 1j	72,900,000	20,197	3,609
Louisiana	Ascension Parish School Board	65,406,419	22,537	2,902
Louisiana	St. Charles Parish School Board	56,290,119	9,328	6,035
Texas	Barbers Hill Independent School District	55,233,858	5,732	9,636
South Carolina	Berkeley County School District	54,021,717	36,134	1,495
South Carolina	Greenville County Public Schools	41,342,000	76,158	543
Ohio	Cleveland Municipal School District	34,685,527	37,617	922
Illinois	City Of Chicago School District 299	32,800,000	358,453	92
South Carolina	Charleston County School District	32,250,847	49,769	648

Figure 2.1 Distribution of individually reported losses



Reflecting the fact that abatement costs are not spread evenly but instead tend to disproportionately affect some school districts (see our case studies in Chapter 3), the cost of abatements per student was extremely high in some localities.[6] As we itemize in **Table 2.4**, fully 149 school districts lost *more than $1,000 per pupil* in FY 2019. And among those top 25 most-harmed bodies of students, 18 are in Texas and 5 are in New York. Storey County School District in Nevada reported the highest per-pupil foregone revenue — *over $35,000*, abated by the state as part of its Tesla Motors "gigafactory" subsidy package.

Table 2.4 Districts with More Than $1,000 in Per-Pupil Foregone Revenue

Nevada	Storey County School District	35,687
Texas	Adrian Independent School District	21,716
Texas	Webb Consolidated Independent School District	21,320
Texas	Glasscock County Independent School District	16,190
Texas	Grady Independent School District	13,905
New York	Chateaugay Central School District	10,904
Texas	Silverton Independent School District	10,447
Texas	Paint Creek Independent School District	9,978
New York	Rensselaer City School District	9,756
Texas	Barbers Hill Independent School District	9,636
Texas	Sterling City Independent School District	8,869
Texas	Brazos Independent School District	8,835

State	Reporting jurisdiction	FY19 Per-pupil foregone revenue ($)
Texas	Kenedy County Wide Community School District	8,732
New York	Barker Central School District	8,470
Texas	Iraan-Sheffield Independent School District	8,086
Texas	Lockney Independent School District	7,911
Texas	Floydada Independent School District	7,736
Texas	Borden County Independent School District	7,555
Texas	Van Vleck Independent School District	7,317
Texas	Miami Independent School District	7,152
Texas	Grandview-Hopkins Independent School District	7,042
New York	Northern Adirondack Central School District	6,690
Illinois	Zeigler-Royalton Community Unit School District 188	6,525
New York	Sharon Springs Central School District	6,502
Texas	Gregory-Portland Independent School District	6,152
Louisiana	St. Charles Parish School Board	6,035
Louisiana	Iberville Parish School Board	5,657
Texas	Vega Independent School District	5,521
New York	Peekskill City School District	5,513
Oregon	Morrow County School District	5,477
Texas	Whiteface Consolidated Independent School District	5,206
Texas	Hermleigh Independent School District	5,083
Texas	Rankin Independent School District	5,062
Louisiana	West Baton Rouge Parish School Board	4,745
Texas	Highland Independent School District	4,730
New York	Valley Stream 30 Union Free School District	4,652
Texas	Ingleside Independent School District	4,408
Texas	Panhandle Independent School District	4,302
Texas	Cushing Independent School District	4,115
New Jersey	Glassboro School District (Gloucester County)	4,028
Texas	White Deer Independent School District	3,782
Texas	Walcott Independent School District	3,752
Louisiana	St. James Parish School Board	3,745
Texas	Ganado Independent School District	3,722
South Carolina	Dorchester County School District 4	3,711
Texas	Dimmitt Independent School District	3,709
Oregon	Hillsboro School District 1j	3,609
South Carolina	Greenwood County School District 52	3,556
Texas	Sweeny Independent School District	3,496
Missouri	St. Genevieve County R-II	3,494
Oregon	Crook County School District	3,425
Texas	Archer City Independent School District	3,287

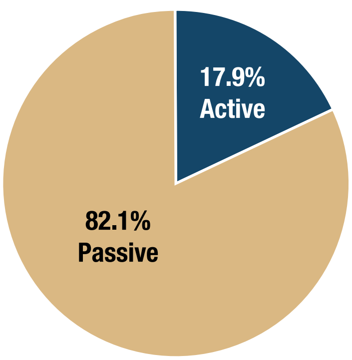
State	Reporting jurisdiction	FY19 Per-pupil foregone revenue ($)
Missouri	Community R-VI	3,248
Texas	Haskell Consolidated Independent School District	3,207
Texas	Yoakum Independent School District	3,087
New York	West Canada Valley Central School District	3,025
New York	Warsaw Central School District	3,025
Texas	Fort Elliott Consolidated Independent School District	2,993
Texas	Crosbyton Consolidated Independent School District	2,977
South Carolina	Orangeburg Consolidated School District 3	2,956
South Carolina	Chester County School District	2,931
Texas	Lyford Consolidated Independent School District	2,930
New York	Hendrick Hudson Central School District	2,922
Louisiana	Ascension Parish School Board	2,902
Pennsylvania	Greencastle-Antrim School District	2,779
New York	Hauppauge Union Free School District	2,703
New York	Letchworth Central School District	2,703
Georgia	Taylor County Board of Education	2,685
New York	Bethpage Union Free School District	2,624
Texas	Harrold Independent School District	2,609
Texas	Reagan County Independent School District	2,595
New York	Wayne Central School District	2,526
West Virginia	Pleasants County Board of Education	2,436
Texas	Olney Independent School District	2,398
Texas	Chillicothe Independent School District	2,324
New York	Schalmont Central School District	2,286
New York	Dunkirk City School District	2,282
South Carolina	Barnwell School District 45	2,197
South Carolina	Calhoun County Public Schools	2,092
Texas	Clarendon Independent School District	2,076
Texas	Roscoe Collegiate Independent School District	2,033
Louisiana	St. John the Baptist School Board	1,978
Missouri	Kansas City 33	1,925
South Carolina	Anderson County School District 5	1,897
Texas	Kenedy Independent School District	1,855
New York	Waterloo Central School District	1,835
Oregon	Clatskanie School District No. 6j	1,822
New York	Pocantico Hills Central School District	1,781
Texas	Munday Consolidated Independent School District	1,773
South Carolina	Spartanburg County School District 5	1,771
Iowa	Bondurant-Farrar Community School District	1,763
Texas	Pettus Independent School District	1,761

State	Reporting jurisdiction	FY19 Per-pupil foregone revenue ($)
New York	Oswego City School District	1,755
Texas	Brackett Independent School District	1,750
New York	Roslyn Union Free School District	1,745
Ohio	Grandview Heights Schools School District	1,721
Texas	La Porte Independent School District	1,679
New York	Spackenkill Union Free School District	1,646
Texas	Taft Independent School District	1,646
New York	Nanuet Union Free School District	1,596
New York	Lynbrook Union Free School District	1,594
Texas	Snyder Independent School District	1,581
New York	East Greenbush Central School District	1,559
Texas	Friona Independent School District	1,531
New York	Valley Stream 24 Union Free School District	1,512
South Carolina	Berkeley County School District	1,495
New Jersey	Barrington School District (Camden County)	1,475
New York	Monticello Central School District	1,468
New York	Tioga Central School District	1,441
New York	Wayland-Cohocton Central School District	1,394
Ohio	Tri-County North Local School District	1,392
South Carolina	Anderson County School District 4	1,346
Pennsylvania	Fairfield Area School District	1,341
South Carolina	Jasper County School District	1,335
Texas	Claude Independent School District	1,323
Ohio	Rossford Exempted Village School District	1,322
Illinois	East Peoria Community High School District 309	1,317
Ohio	Groveport Madison Local School District	1,306
New York	Amsterdam City School District	1,298
Texas	Bryson Independent School District	1,293
New York	Fort Edward Union Free School District	1,266
Ohio	North Central Local School District	1,238
Missouri	Orchard Farm R-V	1,226
South Carolina	Florence County School District 4	1,208
South Carolina	Orangeburg Consolidated School District 5	1,199
New York	New Rochelle City School District	1,196
Texas	Lamesa Independent School District	1,190
New York	Niagara-Wheatfield Central School District	1,186
Oregon	Riverdale School District No. 51j	1,181
New Jersey	Princeton Public Schools (Mercer County)	1,174
New York	Uniondale Union Free School District	1,174
Michigan	Pontiac City School District	1,166

State	Reporting jurisdiction	FY19 Per-pupil foregone revenue ($)
Texas	Pecos-Barstow-Toyah Independent School District	1,123
New York	Farmingdale Union Free School District	1,122
New Jersey	Bayonne School District (Hudson County)	1,119
New York	Garden City Union Free School District	1,119
New York	Syosset Central School District	1,107
Ohio	Leipsic Local School District	1,093
Pennsylvania	Northeastern School District	1,088
New Jersey	Newton Public School District (Sussex County)	1,084
South Carolina	Spartanburg County School District 3	1,063
Ohio	Monroe Local School District	1,061
Texas	Calallen Independent School District	1,050
Texas	Borger Independent School District	1,042
New York	Owego-Apalachin Central School District	1,024
New York	Union Springs Central School District	1,021
Texas	San Perlita Independent School District	1,018
Louisiana	City of Bogalusa School Board	1,008
Pennsylvania	Pittsburgh School District	1,006

Figure 2.2
Active vs. Passive Revenue Loss

Percentage of total foregone revenue incurred by self (active) vs. others (passive)



Most of the abatements causing foregone school revenue are awarded by *other* governments (Figure 2.2). We term this "passive" revenue loss, part of the "intergovernmental free lunch" we explained in the Introduction. GASB 77 was explicitly worded to capture and reveal such passive losses.

Indeed, in at least 18 states, school districts reported *only* passive revenue loss, meaning that all tax abatement awards were controlled by cities, counties, development authorities, and/or states. In Texas, by contrast, school districts are authorized by Chapter 313 to abate their own taxes directly. We term this type of foregone revenue as "active."

Nationwide statistical analyses reveal that among the districts that lost revenue, both the total foregone revenue and per-pupil foregone revenue are significantly associated with the percentage of Black and Hispanic students as well the percentage of students qualified for free and reduced-price lunches (i.e. student poverty).[7] This means that the cost tends to be greater in disadvantaged districts.

Tax abatements *are* typically concentrated in distressed, mature, or high-growth areas. In states that do not fully equalize education funding, this means that "the poor pay more" to subsidize economic development. (Exceptions to this pattern may include areas with concentrations of capital-intensive and abated business establishments, such as cloud-computing data centers in parts of Oregon.)

The other 23 States (and D.C.): Why tax abatement disclosures are incomplete – As the notes to **Table 2.1** indicate, there are states for which GASB 77 may legitimately not apply (some states belong to more than one of these categories):

1. **States where most or all of the school districts don't use GAAP:** All of Indiana's school districts use the standards set forth by the Indiana State Board of Accounts. Most school districts in Kansas use standards in the Kansas Municipal Audit and Accounting Guide (KMAAG).

2. **States where most or all of the school districts do not issue financial reports:** In the six New England states — Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont, most school districts do not issue their own financial reports; only a handful of regionalized school districts do.[8] In Hawaii, public education is managed by the state, and therefore there is no local financial reporting. Delaware's school districts only issue budgets and unaudited monthly reports. In thinly populated states like Montana and South Dakota, many districts are very small and are thus exempt from completing financial audits. D.C. Public Schools also does not issue financial reports.

3. **States where most or all of the school districts are component units:** Most school districts that are component units of cities or counties do issue their own financial reports. But because they do not levy taxes independently, GASB 77 may not apply, though we argue it should. These states include Alaska, D.C., Maryland, Tennessee, and Virginia.

4. **States where school taxes are protected from all forms of abatements:** Alabama, Florida, and Maryland shield school taxes from all forms of tax abatements. There are several other states that protect school taxes from tax increment financing (TIF) only. For example, Kentucky's law forbids school and fire districts to participate in TIFs. A special variation of this case is Alaska, where school districts do not derive revenues from property tax and hence are not affected by property tax abatements.

5. **States where there are few to no local tax abatements:** In states like Arizona, North Carolina, and Wyoming, local governments typically do not use tax abatements to incentivize businesses. In the case of North Carolina, the state law specifically forbids local tax abatements.

There are several other states like Colorado and Kentucky where school districts reported small or zero total amounts because most tax abatements take the forms of tax increment financing (TIF) or Industrial Development Bond (IDB)-bundled deals, which are grey areas in GASB 77 reporting. We discuss TIF and IDBs in greater detail in Chapter 4 but in short, TIFs and IDB deals are vast and widely used and should be reported.

To conclude, this chapter uses available GASB 77 data to sum up the previously hidden costs of tax abatements. Some states fund their schools by ensuring that a baseline per-student spending level is met regardless of the local tax revenue, offsetting shortfalls in property tax collection through equalization formulas. The districts in these states often claim that any revenue lost to tax abatements is made up by state taxpayers. However, we found in our 2003 study[9] that such state offsets rarely make the local districts whole. (They may, for example, equalize *operating* budgets, but allow *capital* budget inequities to fester.)

As well, it is important to stress: just because these districts do not bear the cost of tax abatements themselves does not mean that cost has not been incurred. Thanks to GASB 77, we can see how these costs can be effectively spread out over a state's entire tax base. Even if some of the foregone local revenue is offset, tax abatements are not a free lunch.

3. CASE STUDIES OF FIVE STATES

In this chapter, we present in-depth analyses for five states where schools are losing a lot of revenue to abatements: Louisiana, Missouri, New York, South Carolina, and Texas. All five are losing hundreds of millions of dollars annually in education revenues (see Table 2.1). While offsetting revenues may come from local property owners paying higher millage rates, or from state taxpayers, many school districts still suffer net losses.

While we strongly suspect there are other "big loser" states (whose losses are obscured by deficient reporting compliance, see Chapter 4), we credit these five states for diligence in reporting: In each, a large number and/or a high percentage of the school districts included GASB 77 disclosures in their Comprehensive Annual Financial Reports (CAFRs) or single audits.

We attribute good compliance in turn to strong oversight at the state and/or county level. Conversely, in states where school districts are not disclosing tax abatements as they should, we suspect lax oversight by certain state officials or an incorrect interpretation of, if not the Statement itself, certainly its intent.

But to be sure: these five states have some of the costliest tax abatement programs in the country. It's not just the enormous figures, but also the troubling trendlines and equity implications that demand attention. Certain tax abatement programs, like the Industrial Tax Exemption Program (ITEP) in Louisiana and the Fee in Lieu of Taxes (FILOT) in South Carolina, are clearly undermining how schools and communities can serve their most vulnerable residents.

Louisiana: Local Activists Fight State Control of Property Tax Abatements

In FY 2019, about two-thirds of Louisiana's 69 parish school districts were affected by the Industrial Tax Exemption Program (ITEP), losing roughly $269 million in revenues to it. (Louisiana's parishes are its counties.) Even though this aggregate state figure has been steady in the past three years, quite a few individual school districts experienced dramatic two-year jumps.

Abatement losses for St. John the Baptist Parish School Board rose from $700,000 in FY 2017 to $11.8 million in FY 2019. Similarly, West Baton Rouge Parish School Board lost $2.2 million in FY 2017, and $18.0 million in FY 2019. The school districts of Lafourche Parish and St. James Parish saw increases of 152 and 121 percent, respectively.

The largest single-year revenue losses in absolute terms were reported by the Ascension Parish School Board ($58.3 million in FY 2017 and

$65.4 million in FY 2019). St. Charles Parish School Board also reported more than $50 million in foregone revenue in both years. Their per-pupil revenue losses were also exceedingly high. For the St. Charles district, *$6,035 per student* was lost to just the one corporate tax break program, ITEP and for the Ascension Parish district, it was $2,902. (The state of Louisiana has other tax-based corporate subsidies.)

Other large absolute or per-pupil revenue losses were reported by the school boards of Iberville, West Baton Rouge, East Baton Rouge, St. James, St. John the Baptist, and Calcasieu Parishes. All lost either more than $10 million or more than $1,000 per student.

Among the districts named so far that reported either large single-year losses or large increases, those in the parishes of Iberville, West Baton Rouge, East Baton Rouge, St. James, St. John the Baptist, and Washington have relatively high student poverty (as measured by the percentage of students who qualify for free or reduced-price lunches) and high shares of Black plus Hispanic students. Districts in small towns also tend to lose more revenue per pupil though they have more students living in poverty.

ITEP is the nation's most notorious property tax abatement program. Unlike in any other state, since the 1930s, control of local abatements in Louisiana has resided in one state board, appointed entirely by the governor. Local governments, including parish school boards, until recently had no power to opt out of ruinously costly ITEP awards. That remained true until a faith-based coalition, Together Louisiana, persuaded Gov. John Bel Edwards to issue an executive order in 2016 granting localities the right to opt in or out of each state-approved ITEP abatement. Since then, at the insistence of citizen activists, localities have opted out of some expensive deals.

The most dramatic of these local disputes came in mid-2019, when teachers in East Baton Rouge voted 445 to 6 to walk out if the parish school board granted a $2.9 million abatement to ExxonMobil for a facility *that was already built and operating*. The school board backed down and opted out of the deal.[10]

Despite some defeats, manufacturing lobbyists are seeking to undo the executive order (including an unsuccessful 2020 ballot initiative) and property tax abatements remain contested terrain in the Pelican State.

Missouri: Abatement Losses Soar 40 Percent in Two Years

When it comes to economic development incentives, Missouri's local governments have a menu of options to choose from: Chapter 99, Chapter 100 Industrial Development Bonds, Chapter 353, Enterprise Zones, and Tax Increment Financing (TIF) Districts. In FY 2019, these programs resulted in the abatement of at least $130.6 million in school taxes — *a 40 percent rise from two years earlier.*

We were able to obtain 405 FY 2019 CAFRs from the 518 public school districts in Missouri. Of those 405 CAFRs, 135 include GASB 77 disclosures. Many districts reported a single tax abatement figure for more than one of the aforementioned programs, so it is not possible to break down the $130.6 million by program.

But TIF was likely the costliest program — we estimate it was responsible for roughly $60 million in reduced or diverted revenues.

Missouri is one of the best states for disclosing TIF-district spending via GASB 77 disclosures. We believe this reflects two facts. First, under existing Implementation Guide advice from the Governmental Accounting Standards Board (GASB), if TIF funds are paid to a private taxpayer, they are defined as abatements and therefore must be reported under GASB 77.[11] Second, Missouri is one of few states that monitor TIF districts at all: the State Auditor maintains an online database of all TIF projects and routinely conducts audits of local TIF finances.

An Outlier in Kansas City: Kansas City Public Schools (KCPS) reported the highest losses by far. The various tax abatement programs used by Kansas City resulted in $21 million less revenue for the school district in FY 2019. The Planned Industrial Expansion Authority abated another $7.9 million from the district.

Kansas City's use of tax abatement programs also affected four other school districts. Among these, North Kansas City Public Schools and Liberty Public School District lost more than $8 million apiece, in addition to the millions lost to other cities' programs.

The KCPS board is now in a protracted incentives reform debate with the city's mayor, city council and certain business interests (**Figure 3.1**). At a minimum, it wants to have a say in whether their money can be giving away without their input. Using GASB 77 data, the board began issuing letters, testimony and website content in 2020 revealing stark racial disparities

Figure 3.1 Kansas City Public Schools Web Page on Incentives Debate

in abatement costs borne by KCPS students, 84 percent of whom are Black or Latino. KCPS schools lost $2,000 per child, it reported, while a nearby majority-White suburban district, Park Hill, lost only $97 per student.

Writing to the City Council, Superintendent Dr. Mark T. Bedell said: "Frankly, I am exhausted with the development community pitting the City against the public entities that are doing the work of trying to give our students and their families access to the world they deserve. This is systemic racism."

New York State (minus New York City): Black and Latino Students Lose More

School districts in New York State reported the second highest total revenue loss after South Carolina. The net foregone revenue, after accounting for the offset by Payments in Lieu of Taxes (PILOTs), amounted to $373.6 million in FY 2019.[12] These figures do not include New York City schools, which are a component unit of the City. It is not possible under this system to determine school-specific losses.

Most of the upstate abatements were awarded by county industrial development agencies (IDAs). Authorized by 1969 legislation, IDAs have enormous powers to grant tax-based incentives in the name of economic development. They are able to purchase properties, making them tax-exempt, and lease them to businesses in exchange for PILOTs. According to the 2020 annual report on the IDAs by the New York State Comptroller, there were 109 IDAs as of 2018 (the latest year for which data is available) with over 4,289 active projects receiving tax exemptions totaling $784 million after accounting for PILOTs.

From the GASB 77 disclosures, we can see that school districts shoulder much of the cost of these IDA-approved tax exemptions. Nearly half of the state's 689 independent school districts reported at least some revenue reduction. In terms of individual losses, Oswego City School District ranked first with $27.4 million, though the district did receive $20.9 million in PILOTs to offset the reduction in tax revenue (so its net loss was $6.5 million). Fourteen other districts were subject to gross tax abatements greater than $10 million that were subsequently offset to varying extents. Even if we look at just the net figures (i.e., after accounting for PILOT offsets), 87 New York school districts lost between $1 million and $10 million in FY 2019.

Three of the 87 school districts—Peekskill, New Rochelle, and Rensselaer—lost more than $10 million. All are relatively poor, and two also have large shares of Black and Hispanic students. As in Missouri, we found evidence in New York of racial inequities in tax incentive spending: For the 331 districts that reported abatement-driven losses, all three measures of foregone revenue — gross, net, and per-pupil — are statistically significantly associated with the share of Black and Hispanic students, after controlling for district size. This means that on average, districts with more Black and Hispanic students tend to lose more revenue to abatements, regardless of how many students are enrolled.

Again, this analysis excludes New York City as its school districts do not have independent financial reporting. But we can surmise that the financial impact of tax abatements on these schools is sizeable: New York City has annual tax abatements in the billions — larger than many states' combined state- and local-level tax abatements, and K-12 education makes up over one-third of the city's expenses.

South Carolina: Counties Abate Lavishly, Schools Suffer Most

The highest total-dollar revenue lost by public schools to corporate tax breaks came in South Carolina, even though the state ranks #23 in student population. In its 81 districts, tax abatements in FY 2019 totaled $423.0 million, and that is after accounting for offsets. This figure represents an increase of nearly $100 million, or 31 percent, from the foregone revenue reported in FY 2017.

More troubling than the giant sum and the steep increase is that some of the state's poorest school districts also lost the most. Among those districts reporting the largest losses (on a per-pupil basis) are six that have the highest student poverty rates and shares of Black and Hispanic students in the state.

In 2020, Good Jobs First published a report examining the revenue impact of tax abatements on South Carolina's schools.[13] It noted the large aggregate abatement figure, sharp increases in some individual districts, and the effect of worsening inequality. It also questioned the "intergovernmental free lunch" problem, in which South Carolina counties grant abatements, harming schools the most, yet then bear no accountability to disclose which corporations are saving how much in taxes, or whether each deal is paying off in new jobs and good wages.

Indeed, when counties in South Carolina offer generous tax abatement packages to businesses at the expense of school districts, the districts have no say in the decision and no way to opt out of the agreements. The enormous property tax discount from the Fee in Lieu of Taxes (FILOT) agreements can last up to 40 years—or even longer for especially large investment projects. These tax benefits can be bundled with the Special Source Revenue Credit (SSRC), which is awarded to businesses through the counties' issuing of bonds backed by FILOT revenues. There are even more tax savings if the FILOT awardee is located in a Multi-County Industrial Park (MCIP).

Many large companies relocating to or expanding in South Carolina in recent years have taken advantage of these benefits. Google, for example, is a recipient of Berkeley County's FILOT-SSRC-MCIP combo deal. Under the agreement, the tech giant makes payments in lieu of heavily discounted property tax (frozen millage rate on top of a lowered assessment ratio) on its $600 million campus expansion, which then get further offset by tax credits. Another example is Michelin, which has a 30-year FILOT arrangement with Lexington County and a 40-year deal with Anderson County.

Of all the taxing jurisdictions affected by these programs, schools suffer the greatest revenue loss, by far, because education is the most expensive local public service . In fact, school districts in South Carolina shoulder about three-quarters of the total loss for all taxing entities within the county, including the county itself. For example, Chester County granted several standalone and bundled deals that cost the county $2.6 million in FY 2019; its school district lost six times that much. Similarly, school districts in Orangeburg County, one of the poorest in the state, lost $15.8 million, nearly five times as much revenue foregone by the county.

Texas: Heaviest Per-Student Losses and a Perverse Incentive for Some to Abate

In Texas, the issue is not a lack of power for school districts, but rather a system that in effect rewards them for giving out abatements. The biggest beneficiaries are the state's heavy petrochemical manufacturers. And the per-student revenue losses are the heaviest of any state, with a third of affected districts losing more than $1,000 per pupil per year. Indeed, of the nation's 149 school districts with revenue losses of $1,000 or more per student, 52 are in Texas (including 18 of the top 25 losers, all of which lost more than $6,000 per student).

At the heart of this problem is the Chapter 313 program, also known as the Texas Economic Development Act, which authorizes school districts to provide companies with a 10-year limitation on the maintenance and operations (M&O) tax in exchange for job creation and capital investment. Enacted 20 years ago, the incentive is rapidly growing in use: The number of active agreements statewide increased from 311 in 2017 to 509 in 2019.[14]

In FY 2019, 186 out of the 1,023 school districts in Texas reported a total of $370 million in gross foregone revenue. After accounting for the various payments from the recipient firms (PILOTs) and from the state (hold-harmless, supplemental, revenue protection, etc.), the net foregone revenue comes to $290.4 million. That is a sharp 54 percent increase from FY 2017.

Chapter 313 creates a perverse incentive for some school districts to enter into agreements because sometimes the company payments plus state reimbursements can add up to more than the amount of tax revenues reduced. Nevertheless, as the total indicates, many districts would still forego substantial M&O tax revenues if it weren't for state reimbursements.

Barbers Hill Independent School District (ISD), for example, abated $31.1 million in FY 2017, $47.1 million in FY 2018, and $55.2 million in FY 2019. It stated that businesses receiving these abatements have pledged to make compensating payments but did not specify how much.

The second highest single-year loss was reported by Gregory-Portland ISD in FY 2019. After accounting for reimbursements, the district lost $28.7 million, up from $2.7 million in 2017. Again, a pattern of large losses suffered by minority students is evident: Gregory-Portland is a Latino-majority district with more than half of its students qualified for free or reduced-price lunches. The districts of La Porte, Brazosport, Manor, and Port Arthur are similarly disadvantaged districts that reported large revenue losses.

Furthermore, the per-pupil taxes abated in Texas are much larger than any of the four other states detailed here.

Many Texas districts, in addition to (or worse, instead of) reporting the amount of taxes abated, reported the "net benefit" to the district by summing the various compensation payments and the amount of M&O taxes paid (sometimes without specifying how much each one is). This manner of reporting, of course, emphasizes the upsides of Chapter 313 and, in some cases, greatly complicated our data collection and analysis (**Figure 3.2**), not to mention the ability of the public to scrutinize the deals. As that reproduction of a typical Statement No. 77 Note shows, the gross abatement (in column D) is not accounted for in that "net benefit" computation, which is actually a gross benefit summation.

Figure 3.2 Reproduction of Texas schools' reporting format

C	D	E	F	G
M&O Taxes Paid	M&O Taxes reduced	Reduced loss payment	Supplemental Payment	Net benefit (C+E+F)

(Columns A and B, not shown here, are typically the full and reduced property values)

Comanche ISD is one of at least seven Texas school districts that went even further: it reported everything *except for the amount of taxes reduced* (**Figure 3.3**). To get at the foregone revenue, one must first divide the M&O taxes paid by the limited valuation to get at the tax rate ($1.17 per $100) and then multiply that tax rate by the difference between the project's actual value and its (abated) value limitation, which comes to more than $129 million. Only then can we arrive at $1.5 million in gross foregone revenue, which exceeds the note's stated "net benefit (loss)" of about $1.4 million.

Other districts provided even less information, such that cost calculations are not possible. These include Goose Creek Consolidated, Gruver, Muenster, Muleshoe, Rio Grande City Consolidated, and Zapata ISDs.

Figure 3.3 Reporting only the "net" (but actually gross) benefit

Project: Logan's Gap Wind I (Application#335)
First Year Value Limitation: 2016

Project Value 2018	$139,459,160
Project Value's Limittion Amount 2018	$10,000,000
Amount of Applicant's M & O Taxes 2018	$117,00
Company Revenue Loss Payment to District 2018	$1,514,672
Company Supplemental Payment to District 2018	$114,727
Net Benefit (Loss) to District 2018	$1,399,945

(Reproduced from the Comanche ISD's FY 2019 CAFR)

We have also identified 15 more districts that had Chapter 313 abatements worth $10.9 million, according to the Texas Comptroller's reports, but failed to disclose them in their CAFRs. They are: Alpine, Benavides, Buena Vista, Eden Consolidated, Edinburg Consolidated, Knippa, Lohn, Midway, Mullin, Northside, Raymondville, Stanton, Vernon, Waller, and Wildorado Consolidated ISDs.

These are just the ones we found; there could be more. Because of these undisclosed abatements in 15 districts, plus the six districts that made the calculations impossible, our $290.4 million total for Texas schools significantly underreports how much revenue was diverted to tax abatements.

4. COMPLIANCE: NON-DISCLOSURE AND UNDER-REPORTING

States vary greatly in how well their local governments, including school districts, comply with GASB 77. Some states have abundant local reporting, others have little; local disclosures are detailed and clear in some states, and incomplete or confusing in others. In this chapter we first explore the reasons, as best we can discern them, for poor compliance across some states; then we discuss some common problems we observed in individual districts' comprehensive annual financial reports, or CAFRs.

4.1: Low-Reporting States

As we detailed in Chapter 2, especially Table 2.1, we found enormous reported abatements in some states and next to none, or none, in others. There are legitimate explanations why some school districts don't disclose: there are those that do not report their finances independently (that is, they are component units of cities or counties), some that do not use GAAP accounting, others are located in states where local governments rarely enter into tax abatement agreements, and in a few cases school revenues are shielded from tax abatements.

Still, we are left with a handful of states for which there are no apparent legitimate explanations. Consequently, we reached out to state auditors, comptrollers, and/or financial officers of the education departments in these states.

Our conversations with these state officials surfaced three main reasons why some states are missing school district tax abatement disclosures: 1) lack of state oversight of GAAP compliance; 2) reliance on TIFs for economic development; and 3) reliance on IDBs for economic development. The latter two have as much to do with GASB's problematic definition of "tax abatement" as reporting governments' erroneous (in our opinion) interpretation that some TIFs and IDBs don't constitute abatements.

1) Lack of State Oversight

Some states do not have direct authority over financial reporting by school districts: Local auditing is outsourced to independent Certified Public Accountant (CPA) firms, and the state auditor does not check their work. The state may set guidelines on GASB 77 reporting and provide guidance or advice if a local government requests help, but does not enforce compliance.

In Mississippi, where only three out of 107 available school district CAFRs had a note on tax abatements, the State Auditor relies entirely on the judgement of the CPA firms regarding GASB 77, even though the office has a division for quality control specifically for checking school districts' financial reporting. Because Mississippi's school districts do not enter into tax abatement agreements themselves but are passively affected by other local governments, they are essentially given a pass to skip the disclosures. The Auditor neither encourages nor discourages reporting, and there's no penalty if the district's financial officers and contracted auditing firm decide to not disclose.[15]

This Mississippi practice is unfortunate, as one of the most valuable aspects of GASB 77 is to reveal that the revenue "leg bone is connected to the hip bone." Even the three districts that had GASB 77 notes did not report the amount of taxes abated but only the amount of offsetting revenue received (in the form of PILOTs), because, they wrote, the abating counties failed to provide the information. This reflects the lack of state involvement in ensuring GASB 77 compliance.

It also highlights a problem we mentioned earlier: school districts in many states not only have no say into whether their revenue is diverted, they don't even know how much or what, if any, benefits they're receiving.

In Minnesota, where school districts *can* enter into tax abatement agreements themselves but only five reported doing so, the Office of the State Auditor has no specific audit authority over school districts. In the past, the Office has answered inquiries from cities and counties regarding issues like TIFs and materiality, but not from school districts (apparently because none has posed GASB 77 questions).[16] The Minnesota Department of Education communicates with the private CPA firms about auditing standards and regulatory requirements. Stimulated by our query, the Department has looked into possible noncompliant cases, but the CPA firms assert that no GASB 77 disclosure is needed because there was no overall foregone revenue (offset by increased levy on other taxpayers).[17]

Similarly in Idaho, where only three of the 100 available school district CAFRs had any information on tax abatements, neither the Legislative Audit Division of the State Legislature nor the Department of Education oversees financial reporting by school districts. The former does not collect school districts' financial audits and thus has no mechanism or responsibility for providing guidance on their reporting.[18] The Education Department collects the audits but does not review them for compliance with accounting standards. Each district and its CPA firm appear to be the only ones responsible for ensuring that financial reporting requirements are met.[19]

2) Reliance on Tax Increment Financing Districts

As a reminder: a TIF district is a defined area where, when redevelopment happens and property values go up, and therefore property taxes go up, the tax revenue is split into two streams. The first stream, tied to the values before redevelopment — the so-called "base value" — continues to go where it always went: schools, public safety, libraries, sanitation, etc. The second stream, consisting of the increased tax — the so-called "tax increment" — is diverted away from public services, often for decades, to subsidize the redevelopment activity in the district. Some states also allow for the diversion of incremental sales taxes, or even other taxes and fees.

It is worth noting the base value remains fixed throughout the repayment, so that even pre-TIF property-value increases (and the resulting annual property tax increases) get diverted into the second stream.

To jumpstart the redevelopment, TIF funds can be used to service debt: that is, a local government can issue TIF bonds to get a large sum up front to accelerate the process. And again, such diversions and bonds can play out for 20, 30 or more years. A more conservative approach is "pay as you go TIF," in which funds are not used for debt service but simply paid out annually as construction proceeds.

TIF is heavily used in some states such as Colorado, Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, Pennsylvania, Texas, and Wisconsin. Indeed, in some states, it is the largest form of tax expenditure for economic development. (California discontinued TIF in 2011, but more than 740 community redevelopment agencies are still repaying TIF debt, and will be for many more years to come.

Despite TIF's magnitude, Good Jobs First realized from the very beginning of the GASB 77 comment period in late 2014 that this mechanism would likely become a contested issue because it involves the *diversion* of taxes rather than the non-payment, or exemption of taxes, which more neatly fits the "abatement" frame.

The issue is further complicated by the fact that TIFs come in three major forms. In some states, TIF funds may only be used to build public infrastructure or perform other public services such as demolition and land parceling (albeit only within the TIF district, so that it benefits only one or very few property owners). In some states, TIF funds can be paid directly to a developer so as to improve his/her rate of profit on a private structure such as a hotel. And in other states, a developer pays the incremental tax and then gets it right back, a so-called "tax rebate TIF."

In subsequent public debates conducted by GASB through its annual Implementation Guide process, over the objections of Good Jobs First and others, GASB ruled that TIF funds used to build infrastructure are not "abatements" for purposes of GASB 77 reporting. Unfortunately, this is the most common use of TIF funds, so that exclusion is rendering GASB 77 practically useless in some states.

On the other two, less common forms of TIF, GASB ruled that tax increments paid to developers for private construction, or that are merely rebated, *are* reportable abatements in GASB 77 notes. Colorado is one state where GASB's rulings are crippling disclosure. There, economic development is mostly carried out through TIFs created by redevelopment agencies. For example, Denver Public Schools (DPS) enter into TIF agreements with the Denver Urban Renewal Authority (DURA), which result in the reduction of property tax revenues. But because the increments are used to pay for infrastructure debt, DPS is not obligated to disclose the lost revenue. We know that these increments are substantial revenue diversions given that in FY 2019, DURA reported $19 million in TIF-related tax abatements; a small portion of this tax abatement was likely assigned to DPS, which would have been reportable under GASB 77.

GASB's rulings on TIFs have also misled some local governments into thinking that all TIFs are exempt from GASB 77 disclosures. This has been happening in Utah, where local governments routinely create TIFs for economic development. In the past, TIF increments paid for infrastructure exclusively. Recently, however, direct cash payouts to developers have become more common due to changes in the state's enabling legislation in 2018.[20] The Auditor's Office noticed that local governments have not been reporting these payouts and issued an "auditor alert" in April 2020:

> *Participation with a redevelopment agency or the use of tax increment financing does not automatically trigger GASB 77 reporting requirements. However, if a redevelopment agency has an agreement that meets the GASB definition of a tax abatement, the redevelopment agency and any participating governments (counties, cities, school and special purpose districts, etc.) must make the required disclosures.*[21]

This means that all affected entities need to obtain the information on foregone revenue from the redevelopment agency that controls the TIF funds. The auditor's office anticipates a long time before localities catch up and report their developer-payout TIFs.

3) Use of Industrial Development Bond-Bundled Abatements

IDBs, also sometimes called Industrial Revenue Bonds, or IRBs, serve in some states to create what we call a "constitutional work around." That is, they enable localities to grant abatements while skirting what is known as the "gifts clause." Such state constitutional provisions forbid the gifting of a tax benefit to an individual taxpayer. To work around these clauses, some states allow the construction financing of a new facility with an IDB, a 10-year bond. During those 10 years, the facility is actually owned by a local government entity (such as a county economic development authority). That makes it a public structure like a library or police station and therefore off the property tax rolls—an abatement by another name.

During its annual Implementation Guide comment period in the Fall of 2018, the GASB considered a draft Q&A that would have left these IDB gift-clause work-arounds outside the definition of "tax abatement." Good Jobs First, among others, strenuously objected to that proposal[22] and the GASB did not rule on the matter in its issued Q&A the following spring.[23]

When we queried them, officials in the Tennessee Comptroller of the Treasury's office cited GASB's Exposure Draft to us as if it were the GASB's position on the issue.[24] That is, a draft guideline that was *not adopted* by the GASB in its published Implementation Guide ended up guiding the disclosure practice of Tennessee's local governments.

In this particular case, school districts may have a legitimate reason to not report since they are component units (though they do produce their own financial reports). Nevertheless, had the comptroller advised local governments to report foregone revenue tied to IDBs and they followed such advice, we could at least have arrived at some estimates for school districts' foregone revenue through the primary/parent governments' budget allocation for K-12 education. But because the state erroneously advises localities to exclude IDB-bundled abatements, we have hardly any school district data from Tennessee.

In Kentucky, school district taxes are shielded from TIFs but not IDBs, which are just as widely used. One school district reported having entered into a PILOT agreement with a business, possibly as part of an IDB deal. Two others reported having lost revenue to agreements awarded by cities and counties. The other 170 districts reported no information at all. Because Kentucky law does not require school districts be notified of abatements, they may not even be aware that these agreements exist (unless they receive PILOTs from them), let alone the amount that was abated. In fact, one of the three, Newport Independent School District, wrote that the local government "has chosen not to disclose the nature or amount of those abatements."[25]

4.2: Unsatisfactory Reporting

While the previous section focuses on missing disclosures, this section looks at some school districts that made GASB 77 disclosures but failed to provide key information, such as the amount of taxes abated.

1) Indeterminate Amounts

Some districts did not provide the dollar amount of taxes abated because, they wrote, it could not be calculated, either because the tax rates changed (obfuscating the calculations) or because the assessed value of a property was not available. Many school districts in New Jersey cited the tax-rate change excuse in identical, boilerplate statements. However, it is unclear whether they were actually affected by any abatements.

An example of this also is evident in Missouri, at Fox C-6 School District (FY 2019):

> *… As the assessment of the value of this abatement is not within the scope of the Jefferson County Assessor's office, it is undetermined the amount which is abated through this issuance.* (FY 2019: p. 36)

An example from Illinois is Mahomet-Seymour Community United School District 3:

> *The District received $675,921 from the TIF in fiscal year 2019, in addition to discounts on water/sewer billings. The exact amount of the 50% of commercial property taxes that the District has not received or has abated for fiscal year 2019 has not been calculated.* (FY 2019: p. XXI)

Another example is Cattaraugus-Little Valley Central School District in New York:

> *At this time, the District is unable to quantify the amount of taxes… abated…* (FY 2019: p. 35)

2) Levy Raised to Offset the Loss (Cost Spread Around)

Most of those school districts claiming they suffered no revenue loss (because it was offset by state support or by increased local taxation) *did* still provide a figure for the gross amount of taxes abated. For example, Byron-Bergen Central School District in New York reported that:

> *… the District's taxes were abated $385,000… [but] because the abated amounts are spread across the District's entire tax base, there is no impact on the overall property taxes collected.* (FY 2019: p. 17)

However, we found districts that declined to disclose the gross amount of taxes abated *because* it was entirely offset by state support or a raised levy. State officials in California, where only one out of 985 districts reported, informed us that the lack of disclosures is because the state adjusts education funding in a way that effectively offsets any foregone revenue or makes the foregone revenue indeterminable. But states like Michigan and Iowa also reimburse school districts to equalize funding, and school districts there nevertheless reported the gross revenue reduction. And in fact, four districts in California reported in FY 2017, which suggests that it is possible to figure out the amount of foregone revenue.[26] In Minnesota, 38 districts issued "tax abatement bonds" — a form of incentive that shifts its cost to other taxpayers — but reported nothing under GASB 77, because the foregone revenue is factored into higher levy rates.

We believe that offsetting revenues generated by higher millage rates, abatement bonds or any other burden-shifts should be accounted for in the same way Payments in Lieu of Taxes (PILOTs) are. All school districts should first report the gross revenue impact of tax abatements (revenues that would be foregone in the absence of any offsets) and then the offsets, in their GASB 77 notes.

As we have said prior, the districts forego revenue to tax abatements in these states – it's just that the burden is spread out over everyone.

3) Reporting Only the Offsetting Benefit, Not the Gross Cost

Some localities only report the amount of offsetting PILOT or higher-millage revenues received and not the gross taxes abated, often without stating why.

For example, in Mississippi, the three districts that reported abatements (Lamar, Lee, and Lowndes County School Districts) told us that they did not have the information on the amount of taxes abated.

Texas districts often emphasize benefits and downplay costs. Many of its school districts report the amount of Maintenance and Operations (M&O) taxes they received plus the offsetting payments from the state and the recipient companies, calling the sum "net benefit" for the district. Most among these reported the amount of taxes abated; a few did not, and these are a real problem.

For example, Zapata County Independent School District included a note called "Tax Benefit" in its FY 2019 CAFR that reads like a GASB 77 disclosure note (it concerns a Chapter 313 abatement agreement with a wind farm), except that the note provides only the amount of offsetting payments received by the school district. Similarly, Goose Creek, Texas, school district reports receiving $26.4 million in various Chapter 313 payments. But that information is also presented as local revenue in the fund financial statements; never stated is the amount of taxes *abated*, which should have been reported in the GASB 77 note.

4) Ambiguous or Misleading Language

Many New York school districts report in this boilerplate wording:

> *The School District property tax revenue was reduced $X. The District received payment in lieu of tax (PILOT) payments totaling $Y.*

This seems to suggest that the gross revenue reduction is X, which is then offset by Y, such that the net revenue reduction equals X *minus* Y. But we found out that in reality, X equals the *net* foregone revenue, making the *gross* revenue reduction X *plus* Y. That is, the net revenue loss is never labeled as such, so that when the offsetting PILOT revenue is counted twice, unsuspecting readers get a far-too-rosy accounting of abatements' fiscal impact.

One example is Chenango Valley Central School District, FY 2019:

> *School District property tax revenue was reduced by $135,219, and the School District subsequently received payment in lieu of taxes (PILOT) payments totaling $133,597.* (FY 2019: p. 47)

The word "subsequently" suggests that the PILOT was received after the abatement reduction, so that the net revenue reduction appears to be the difference between the two numbers (or less than $2,000). But in fact — as we found out when we queried the district's officials — $135,219 is the *net* revenue reduction. That is, the gross abatement cost was $268,816.[27]

5) Immateriality

The determination of whether tax abatements are material to a district is up to the discretion of the financial officer and the CPA firm. GASB 77 does not specify a threshold for materiality. However, we believe that such criteria should be stated. Indeed, we have found districts that report *single digit* abatement costs. Without specifying the materiality threshold, we have no way of weighing such a claim.

Take New York's Brentwood Union Free School District, for example, which claimed that abatement costs were immaterial. But the Town of Islip (where the district is located) reported losing $2.9 million as a result of abatement agreements entered into by the town's and county's Industrial Development Agencies. We assume the school district lost more of that sum than any other entity.

5. CONCLUSION AND POLICY RECOMMENDATIONS

With tax abatement data from barely half the states (and reliable numbers from just a handful), and without counting the higher taxes paid in many states to offset the gross costs of abatements, we have documented nearly $2.4 billion in school revenue abated in FY 2019 for corporate tax breaks. In states with relatively high reporting rates (and hence more complete data), it is also evident that some school districts, often those with the largest shares of Black and Brown students, lose heavily.

The revenue loss to districts would be much higher if we added estimates from states in which school districts are not independent, and if we counted the higher taxes paid by millions of Americans to offset the costs avoided by corporations.

Local taxes make up nearly a third of the funding for K-12 education, yet under state laws they can be abated by cities, counties, and development agencies, often without any input from local school boards. While many states reimburse school districts for much of those revenue losses and/or adjust their funding formulas to offset the corporate tax cuts, this just means that tax burdens are shifted onto others in the school district or onto others statewide. It also means that, because of spending caps and long-term trends in K-12 spending, investments in education are declining.

Education is the most important public investment in equalizing opportunity and in long-term prosperity. It is unconscionable to make our most vulnerable and youngest residents bear such costs in the name of economic development.

Before the adoption of GASB Statement No. 77 on Tax Abatement Disclosures ("GASB 77"), the role of corporate tax breaks in this long-term slide were hidden. Education advocates simply could not see the profound effects of abatements because they weren't accounted for anywhere. Those days are gone. We now have a fuller accounting.

Based on our findings, we make the following recommendations:

Recommendation #1, to the States: **The Best Solution: Cap the Harm or Fully Shield the School Increments**

In most states, schools are passively affected by tax abatements awarded by other local government bodies. Economic growth does not justify carving out a large chunk of the school budget every year. The damage accumulates: Many property tax abatements and diversions last decades. Tax increment financing (TIF) diverts revenue from all properties in a TIF district area even if some have nothing to do with the original subsidized project (and even if the property values in the district were rising pre-TIF).

We recommend fully shielding those local taxes that are earmarked for schools from some or all tax abatements. Even though local governments award and administer the tax abatements, they only do pursuant to state enabling legislation. That legislation can be amended to protect school revenues. About 10 states do, if partially and imperfectly: for example, Alabama prevents property and sales taxes for educational purposes from abatement, though what counts as "educational" is often a political decision; Florida keeps school districts' revenues completely off the table, and Kentucky law prohibits school districts from participating in TIFs.

If 100 percent of school revenue cannot be shielded, the school's share of foregone revenue should be capped by student or as a percentage of school district revenues. For example, schools' portion of abated taxes should not exceed $200 per student or two percent of district revenues.

Recommendation #2, to the States: **Give School Boards Voice and Control**

In most states, school districts are powerless in the negotiations of subsidy deals. Often, they are not consulted or even notified, let alone given a vote or a veto. As education is the most-harmed public service, school boards should be given formal say in any decision-making regarding subsidy awards that affect them, and they should be given control of their portion of the property and/or sales taxes (if those revenues are not shielded, which is the ideal solution).

In a handful of states, subsidy deals are contingent on approval by school districts. Utah, for example, allows school districts to decide how long and how much they want to participate in TIFs. In several others, school boards are notified of proposed tax abatements and given a chance to comment, though they usually aren't given enough weight in the decision-making process to block awards.

Recommendation #3, to the States: **Improve Tax Abatement Disclosures**

The current rules of GASB Statement No. 77 are imperfect, and fixing them may take years (see our final two recommendations). In the meantime, we make the following recommendations to states to make up for the deficiencies in GASB 77 and enable reliable, robust disclosures from local governments and school districts.

1. Create mechanisms to enforce GASB 77 compliance. We found through this study that some states do not really oversee financial reporting by school districts and instead rely solely on private, contracted auditing firms to ensure that all accounting standards are met. But GASB 77 compliance for school districts is an exercise in intergovernmental information-sharing, not a privatized service. School boards typically need to get the abatement data from county tax assessors who collect and apportion revenues. Compound that with GASB 77's failure to issue a decision on Industrial Development Bond (IDB) constitutional work-arounds, and its split decision on TIFs, and CPA firms may err. We therefore recommend that each state give an agency clear and full authority over compliance (like Iowa's Office of the Auditor). We also recommend states encourage or even contract with an association of local government bodies (like the South Carolina

Association of Counties) to issue uniform reporting guidelines and provide GASB 77 training materials to school districts.

2. Require all local governments to include a GASB 77 note. The GASB's Generally Accepted Accounting Principles (GAAP) do not include a negative-disclosure obligation. But given the lack of compliance in many parts of the country, there is no way to tell whether the absence of a GASB 77 note in a CAFR means there are no tax abatements or that the government is failing to comply. Hence the need for a state rule: GAAP-compliant local bodies should be required to include a Statement 77 note stating clearly whether there were any tax abatements in effect. Many localities, we have found, already do this (in West Virginia, Iowa, and Oregon, for example).

3. For component units that issue their own CAFRs and report yearly revenues and expenditures, it should be possible to compute how much less revenue they receive because of other governments' tax abatement programs. The fact that the school districts are not taxing authorities should not prevent the disclosure of pass-through tax abatements.

Require disclosures even if amount is "immaterial" or recouped. Akin to our negative-disclosure recommendation, we also recommend that states require reporting of small or fully offset losses. Disclaimers that the tax abatements had "an immaterial effect," or that revenue losses were recouped by offsets are wholly unsatisfactory. If the net revenue reduction is zero, report both the gross revenue reduction and the offset (PILOTs, state reimbursements, raised taxes, etc.) separately.

4. Require all abating governments to supply information in advance. Because most school districts lose revenue passively to other governments' abatements, school boards often lack the information needed to make the disclosures. Some districts are not even aware of the existence of agreements. So states should require abating governments (i.e., cities, counties, and redevelopment agencies) to assemble and distribute information about their tax abatements to all affected jurisdictions well in advance of submission deadlines for financial reports. For example, the Iowa State Auditor provides templates to local governments and school districts to ensure the smooth transfer of information between abating and passively affected jurisdictions.

Allowing districts to mislead, misinterpret, or simply ignore the underlying intent of Statement No. 77 is contrary to the GASB's intent and Generally Accepted Accounting Principles, upon which sound school finance — and public trust in our local school boards — depend.

Recommendation #4, to the GASB: **Start Over on Tax Increment Financing**

We reiterate here our longstanding, publicly stated recommendation to the GASB: please issue a new Exposure Draft for public comment on tax increment financing (TIF) in which you prescribe that all tax diversions into TIF be disclosed at least as well as tax abatements you prescribe in GASB 77. Don't exclude from disclosure that form of tax expenditure that is in some states the costliest form of economic development tax abatement. Just because some states restrict the use of TIF proceeds to building public infrastructure does not change the fact that such diversions often benefit only one taxpayer (or a small number of taxpayers) and have the same negative effect on education and other public services as do tax-rebate TIFs. Finally, as we've documented, not all localities account for TIF bond debt service in their CAFRs' balance sheets. And even if they do, such records can fail to capture the full cost of the TIF diversions because the increments routinely exceed debt service (to satisfy Wall Street's need for a spread, especially since the Great Recession).

Recommendation #5, to the GASB: Acknowledge that IDB-Bundled Abatements Really Are Abatements

Despite the GASB's failure, in its 2018 Implementation Guide, to rule on the merits of strenuous objections from Good Jobs First and other organizations regarding what we called "constitutional work-around" abatements bundled with IDBs (or IRBs), we have found that localities in states such as Georgia, Missouri, New Mexico, New York are reporting such expenditures for what they really are: tax abatements.

In our 2018 comments on the question, we cited the statements of public officials and lawyers who grant and administer these work-arounds in states such as Georgia, New Mexico, and Tennessee. They all made it clear that these IDB-bundled abatements are legal gimmicks to skirt state bans.

With public comments already in hand, in its 2021 iteration of the Implementation Guide, the GASB could simply issue what we consider a facially obvious decision: IDBs and IRBS are used to give corporate tax abatements.

APPENDIX A: STATE-BY-STATE SUMMARY

The numbers in the parenthesis (**X/Y/Z**) indicate reporting and sampling rate, where:

X is the number of GASB 77 reporters.

Y is the number of CAFRs available.

Z is the number of local public school districts.

ALABAMA (1/119/137)

In Alabama, school taxes are shielded from abatements. (According to the 2019 CAFR of Decatur City Board of Education: "Alabama law does not authorize the abatement of property and sales taxes that are required to be paid by law for education purposes. The Board does not levy any taxes and accordingly cannot grant abatements of any type of tax.")

Alabama's school districts use GAAP accounting but are not required to. Recent audits for *county* boards of education are posted on the website of Alabama Department of Examiners of Public Accounts at https://examiners.alabama.gov/audit_reports.aspx: Select "County Audit" for the division and "Boards of Education" for the classification. The financial statements for *city* boards of education (these are component units) are not posted on this site.

ALASKA (0/40/53)

None of the 40 available CAFRs have GASB 77 notes. Alaskan school districts use GAAP but are not required to. Some districts are component units. As far as we can tell, the state does not post audited financial statements online at a central location. Alaska does have property tax abatement programs that exempt or defer personal property and improvements taxes for businesses that create jobs, as well as tax increment financing called "Debt for Improvement Area Projects."[28] However, Alaska's K-12 public education is not funded by local property tax.

ARIZONA (0/122/228)

We were able to find 122 audited financial statements online for Arizona. We reached out to Arizona's State Auditor and Department of Education to inquire about the lack of disclosures. Neither oversees financial reporting by school districts (i.e., it's up to the individual district and its CPA firms to ensure standards), but the State Auditor does provide reporting guidelines. Arizona's school districts are required to use GAAP accounting. Soon after Statement 77 took effect, the Auditor provided instructions and examples of GASB 77 reporting but took it out of the guides in later years because school districts are rarely affected by tax abatements and hence don't need the instructions. But GASB 77 remains on the reporting checklist issued by the State Auditor every year. The state equalizes educational funding.

As far as we can tell, audited financial statements for school districts are not posted online at a central location. The auditor posts financial statements for other government types here: https://www.azauditor.gov/financial-and-federal-compliance-audits and various non-financial audits for school districts here: https://www.azauditor.gov/reports-publications/school-districts. The Department of Education posts financial reports in excel format for school districts here: http://www.ade.az.gov/SchoolFinance/Forms/LEAQuery/SubmittedFiles.aspx.

ARKANSAS (0/234/234)

None of the 234 school districts in Arkansas reported tax abatements. According to Kenyon et al. (2012), Arkansas has tax increment financing districts and enterprise zones. School districts in Arkansas are required to use GAAP. We reached out to the Legislative Auditor but was informed that they are not responsible for financial reporting by school districts. Financial statements are posted online by the Arkansas Legislative Audit at: https://www.arklegaudit.gov/our-reports/search-audits/default.aspx.

CALIFORNIA (1/961/985)

Only one school district's 2019 CAFR included a GASB 77 note: Belmont Redwood Shores School District stated that "the district is not a taxing authority and does not create, or enter into, any tax abatement agreements" but acknowledged that it's possible for its revenues to be impacted by tax abatement agreements entered into by taxing authorities (and San Mateo County did not have any in 2019).

We reached out to state officials in California about the lack of disclosures and were informed that the school districts did not lose revenue, thanks to of the state equalization formula. However, this is not a valid reason for omitting GASB 77 disclosures: The rule clearly states that districts should report any tax abatements that affected their revenues where they exist, and due to the size of the state's redevelopment programs, we know that's likely in a substantial number of communities. School districts in many states that equalize school funding still report gross and net tax abatements.

California's school districts are required to use GAAP. As far as we can tell, the state does not post audited financial statements in an online repository.

COLORADO (1/93/178)

We found 93 audits for FY 2019; the rest have not been posted. Only two school districts ever acknowledged GASB 77: Denver in 2017 and Jefferson in 2019. Both stated that there were no tax abatements. We reached out to the officials of Denver Public Schools and were informed that the district's TIFs fall outside GASB 77's definition of "tax abatements." This is likely the reason for the lack of disclosures: Colorado's local governments do rely extensively on TIFs through redevelopment authorities, and many such TIFs go unreported under GASB 77. As far as we can tell, the state does not post audited financial statements in an online repository. Each district is required to post its audits on its own website pursuant to financial transparency regulations, but many are late in posting.

CONNECTICUT (0/17/169)

Connecticut is a New England state. Only the 17 regionalized districts have their own financial audits. The budgets and finances of the remaining (local) districts are incorporated into the towns' financial statements.

DELAWARE (0/0/19)

School districts in Delaware do not produce audited financial statements, only yearly budgets and monthly financial reports.

DISTRICT OF COLUMBIA (0/0/0)

The District's schools are a component unit of D.C.'s government.

FLORIDA (0/67/67)

In Florida, school districts are shielded from tax abatements. Florida's school districts are required to use GAAP. The Florida Auditor General post the audited financial statements submitted by 30 of the 67 school districts here: https://flauditor.gov/pages/dsb_efiles.html.

GEORGIA (71/166/180)

In Georgia, school districts' revenues were reduced by $109.4 million, after accounting for $3.1 million in offsets. School districts disclosing in both 2017 and 2019 overall experienced a 6.7 percent increase.

Seventy-one school districts (out of the 166 examined) have GASB 77 notes in their CAFRs, making the reporting rate 34 percent. Sixty-eight school districts reported at least some foregone revenue. All revenue loss is passively incurred by counties, municipalities, and development authorities.

The Georgia Department of Audits and Accounts post audited financial statements for school districts here: https://www.audits.ga.gov/rsaAudits/report/index.

HAWAII (0/1/1)

Hawaii does not have local school districts. There is no GASB 77 Note in the recent CAFRs issued by the state Department of Education.

IDAHO (3/97/115)

Only three out of the 97 school districts reported abatements in 2019, foregoing $478,487 in revenue. What little was reported indicates that school districts are affected by tax abatements. We reached out to the Idaho State Auditor and Department of Education and were informed that neither office oversees financial reporting by school districts. It's up to the individual district and its CPA firm to ensure compliance. Idaho's school districts use GAAP but are not required to. As far as we can tell, the state does not post audited financial statements in an online repository.

ILLINOIS (68/660/892)

In FY 2019, 68 districts (out of the 660 examined) reported tax abatement programs, including TIFs and enterprise zones, that resulted in $59.3 million in net foregone revenue. That's a $10-million increase (for the same 68 districts) from FY 2017. Illinois's school districts use GAAP but are not required to. The Illinois State Board of Education posts the annual financial reports for all local public-school districts in excel format, with pdfs of the audits, notes, and supplementary information embedded in one of the sheets. They are accessible here: ftp://ftpfinance.isbe.net/AFR. CAFRs in pdf format are posted for all charter schools here: ftp://ftpfinance.isbe.net/charter%20school%20audits.

INDIANA (0/101/293)

Instead of GAAP, Indiana's school districts use the accounting standards set forth by the Indiana State Board of Accounts. Therefore, GASB 77 does not apply, even though the state does have local tax abatement programs. We could find only 101 files for FY 2019. The rest have not been filed. As far as we can tell, the state does not post audited financial statements in an online repository.

IOWA (297/329/330)

In 2019, 297 out of the 329 of the school districts reported net tax abatements totaling $27.2 million—$15.6 million after accounting for state reimbursements. School taxes were abated by cities and counties mainly through the Urban Renewal Program and TIF.

One hundred and twenty-four districts reported larger tax abatement costs in 2019 than in 2017; 95 reported smaller costs; 75 reported $0 in both years. More than 100 districts reported rises or drops greater than 50 percent. Additionally, 213 school districts reported at least some foregone revenue in 2019, compared to 196 in 2017—indicating a rise in the prevalence of tax abatements.

Iowa's laudably high reporting rate can be attributed to the diligence of the state auditor. Its website maintains a page on GASB 77 that features a 50-minute webinar explaining the requirements of the statement as well as tools to help local governments meet these requirements. The state auditor also posts the audited financial statements for all school districts and other local governments here: https://www.auditor.iowa.gov/reports/audit-reports.

KANSAS (6/116/286)

Most districts have not yet filed their 2019 financial audits. We were able to find only 116 or 41 percent of the files online. Six reported tax abatement disclosures (including TIFs and IRBs) totaling $16 million in 2019 and $14 million in 2017. The great majority of Kansas's school districts use the Kansas Municipal Audit and Accounting Guide (KMAAG) instead of GAAP. For these districts, GASB 77 doesn't apply, so abatement-driven revenue losses may be far more prevalent. As far as we can tell, the state does not post audited financial statements in an online repository.

KENTUCKY (3/173/173)

Only three school districts in Kentucky included tax abatements in their CAFRs. The abated amounts totaled about half a million dollars. Newport Independent School District was not able to get the abatement information from the city. ("The local government has chosen not to disclose the nature or amount of those abatements.") Kentucky's school districts are required to use GAAP accounting. The Kentucky Department of Education posts all the district financial audits here: https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx.

LOUISIANA (44/66/69)

See detailed case study in Chapter 3.

Just 40 out of the 66 school districts reported $269 million in losses in 2017 and in 2019 because of the Industrial Tax Exemption Program (ITEP). In particular, school districts in West Baton Rouge and St. John the Baptist parishes saw sharp increases between the two years and large amounts reported in 2019. They are poor districts with large shares of minority students. School districts in Louisiana are required to use GAAP. The Louisiana Legislative Auditor posts audit reports (including financial) for school districts and other local governments here: https://www.lla.la.gov/reports-data/audit/parish-audit/index.shtml#.

MAINE (0/64/256)

Maine is a New England state. Only regionalized districts have independent financial reporting. Local school district financials are bundled with the towns' financials. None of the regional reports include GASB 77, though they use GAAP accounting. As far as we can tell, the state does not post audited financial statements in an online repository.

MARYLAND (0/24/24)

None of the district CAFRs included a GASB 77 Note. School districts in Maryland are required to use GAAP, but they are also component units of counties. The Office of Legislative Audits posts the financial statements online at: https://www.ola.state.md.us/Search/Report?keyword=&agencyId=&dateFrom=&dateTo=&reportTypeId4=4#:~:text=Financial%20management%20audits%20are%20conducted,of%20the%20local%20school%20systems.

MASSACHUSETTS (0/39/324)

Massachusetts is a New England state. Only regionalized districts have independent financial reporting. Local school district financials are bundled with the towns'. None of the regional reports include GASB 77, though they use GAAP accounting. As far as we can tell, the state does not post audited financial statements in an online repository.

MICHIGAN (385/542/542)

Three hundred eight-five out of the 542 local school districts in Michigan reported tax abatements in FY 2019, making Michigan one of the highest-reporting states even though its school districts are not required to use GAAP accounting. The total reported foregone revenue is $111 million, or $66 million after accounting for state reimbursements. All foregone revenue is passive. The districts of Detroit and East China dominated tax abatement spending. In Michigan, the taxes abated for general fund operating millage are considered by the state when determining a district's section 22 funding of the State School Aid Act.

The Michigan Department of Education Office of Audits posts the CAFRs for all 542 local public school districts and 56 ISDs (Intermediate School Districts, coterminous with counties) at https://mcsc.state.mi.us/NXT/Gateway.dll?f=templates&fn=default.htm&vid=mofa:fa.

MINNESOTA (5/294/331)

Given that school districts in Minnesota are authorized by Minnesota Statute 469.1812-1815 to give out property tax abatements, it's surprising that only five reported them. Thirty-eight have reported "tax abatement bonds" under Long-Term Obligations. They are not reported because they shift the cost to other taxpayers and do not reduce the district's revenues directly. Minnesota's school districts are required to use GAAP accounting. As far as we can tell, the state does not post audited financial statements in an online repository.

MISSISSIPPI (3/107/141)

Only three school districts in Mississippi reported tax abatements, and all three reported only the amount of offsetting PILOT payment. Even though school districts are required to use GAAP, the State Auditor is lax about its oversight for GASB 77 compliance because the districts are passive revenue losers. It does post the financial audits of school districts and other local governments here: https://www.osa.state.ms.us/reports/Default.aspx.

MISSOURI (135/405/518)

See detailed case study in Chapter 3.

Missouri's school districts are affected by various tax abatement programs controlled by cities and counties, including TIFs and IDBs. In FY 2019, these programs added up to $130.6 million, about 40 percent higher than in FY 2017. As far as we can tell, the state does not post audited financial statements in an online repository.

MONTANA (12/86/402)

Many Montana localities contain both an elementary school district and a high school district. These are distinct legal entities, but they produce a single financial report. Most districts in Montana are very small and are therefore not required to produce any audits. As far as we can tell, the state does not post audited financial statements in an online repository.

NEBRASKA (46/244/244)

The Nebraska Auditor of Public Accounts posts all financial audits for school districts and other local governments here: https://www.nebraska.gov/auditor/reports/index.cgi?audit=1. In FY 2019, 46 districts reported losing a total of $8.4 million under GASB 77. Nebraska's school districts are not required to use GAAP.

NEVADA (12/16/17)

In Nevada, school districts lose revenue to state programs (aviation, data center, standard, renewable energy, and mega-deals like the Tesla battery factory). The state controller publishes an annual GASB 77 report listing the revenue impact on all affected local jurisdictions including school districts. The reports can be found here: https://controller.nv.gov/FinRpts/GASB/Tax_Abatement_Reports/. The districts also report tax abatements in their own CAFRs. The 2019 abatements for the schools totaled $35.6 million. As far as we can tell, the state does not post audited financial statements in an online repository.

NEW HAMPSHIRE (0/0/2)

New Hampshire is a new England state. Only regionalized districts have independent financial reporting. In addition, most schools are part of supervisory unions. None of the regional reports include GASB 77, though they use GAAP accounting. As far as we can tell, the state does not post audited financial statements in an online repository.

NEW JERSEY (124/601/564)

One hundred twenty-four New Jersey districts reported a total of $76.7 million in foregone revenue. Another 193 included only a couple of boilerplate statements, and we are in the process of finding out whether they actually had tax abatements. From what we can tell, municipalities must adjust taxes to make up for any foregone revenue school districts experience. The Department of Education posts the CAFRs for all public and charter school districts here: https://www.nj.gov/education/finance/fp/cafr/search/.

NEW MEXICO (82/88/89)

Almost all New Mexico school districts reported GASB 77, but the total came to only $7.1 million. Several school districts reported only the offsetting PILOT revenue because the counties failed to provide them with the amount of taxes abated. The Office of the State Auditor posts all audit reports for school districts and other local governments here: https://www.saonm.org/auditing/audit-report-search/.

NEW YORK (409/655/688)

See detailed case study in Chapter 3.

Excluding New York City, the total foregone revenue in FY 2019 was $377.3 million. School districts use standard formats for their GASB 77 Notes, but the statements are confusing and ambiguous. We had to reach out to many districts to confirm their numbers. For instance, three districts reported: "School District property tax revenue was reduced by $X, and the School District subsequently received payment in lieu of taxes (PILOT) payments totaling $Y." It turns out that for two of the three districts, X refers to the net foregone revenue, which is not at all apparent in how the sentence was phrased. We have also written to the State Auditor about this issue but have received no response. As far as we can tell, the state does not post audited financial statements in an online repository.

NORTH CAROLINA (0/115/115)

We were able to acquire the CAFRs for all 115 public school districts in North Carolina. There are no GASB 77 disclosures in them. The reason is that North Carolina does not permit local tax abatement programs. Deals are negotiated on an individual basis, and each requires passing a new law. North Carolina's school districts are required to use GAAP. As far as we can tell, the state does not post audited financial statements in an online repository.

NORTH DAKOTA (7/90/174)

In North Dakota, seven districts reported losing $9.2 million in FY 2019. Some school districts are very small and are therefore not required to produce financial audits. School districts use GAAP but are not required to. The auditor posts some financial statements here: https://www.nd.gov/auditor/local-government-audit-reports.

OHIO (252/580/619)

Ohio's school districts reported losing $134.7 million in FY 2019. Ohio's school districts are required to use GAAP, but Policy Matters Ohio has uncovered a group of districts that refuse to follow GASB 77.[29] The State Auditor posts all financial audits for school districts and other local governments here: http://www.auditor.state.oh.us/AuditSearch/Search.aspx.

OKLAHOMA (14/510/512)

In FY 2019, Oklahoma's school districts reported losing $12.3 million. But only 14 out of over 500 reported. One district stated: "The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. Section 193 that is used to reimburse the District for the loss of revenue. Contributions to this Fund come from a dedicated tax stream comprised of one percent of net state personal and corporate income tax revenues." The Oklahoma State Auditor and Inspector posts all financial audits of school districts and other local governments here: https://www.sai.ok.gov/audit_reports/municipal_school_trust_audits.php

OREGON (89/176/177)

In FY 2019, Oregon's school districts reported losing $109.0 million to tax abatements. One district stated: "… the District's tax decrease from property tax abatement is offset with an increase from state school support effectively making a zero-net effect in funding." School districts use GAAP although they are not required to. The Secretary of State posts all financial audits for school districts and other local governments here: https://secure.sos.state.or.us/muni/public.do.

PENNSYLVANIA (94/473/500)

Only 94 of Pennsylvania's 500 school districts (one fifth) reported losing a total of $187.2 million, and most of that came from Philadelphia City Schools, which alone reported $112 million in foregone revenue. As far as we can tell, the state does not post audited financial statements in an online repository.

RHODE ISLAND (0/4/36)

Rhode Island is a new England state. Only four regionalized districts have independent financial reporting. Local school district financials are bundled with the towns' financials. None of the regional reports include GASB 77, though they use GAAP accounting. As far as we can tell, the state does not post audited financial statements in an online repository.

SOUTH CAROLINA (75/81/81)

See detailed case study in Chapter 3.

South Carolina's school districts reported the highest total foregone revenue in FY 2019: $423.0 million. All costs are incurred by county-level programs: FILOT, SSRC, and MCIP. South Carolina's school districts are required to use GAAP. The auditor does not post financial audits online but maintains a transparency website that links to the finance departments of all local governments and school districts: https://www.cg.sc.gov/fiscal-transparency/local-government-spending-transparency.

SOUTH DAKOTA (6/136/149)

Very few school districts in South Dakota reported even though they are required to use GAAP. Six districts reported $122,000 in foregone revenue. The Department of Legislative Audit post only the latest financial audits here: https://legislativeaudit.sd.gov/reports/reports.aspx.

TENNESSEE (0/139/141)

The zero-reporting rate is due to the fact that Tennessee's school districts are component units and the Comptroller considers IDB-bundled transactions to be outside GASB 77's definition of "tax abatement." The Comptroller of the Treasury posts all financial audits for school districts and other local governments here: https://www.comptroller.tn.gov/advanced-search.html.

TEXAS (186/1002/1024)

See detailed case study in Chapter 3.

Texas's school districts can enter into agreements with businesses to reduce their maintenance and operations (M&O) taxes by placing the property in question under a 10-year value limitation. Because the company makes compensation payments based on district size and the state equalizes funding, some school districts have an incentive to give out these tax abatements. In FY 2019, the gross revenue reduction was $370.0 million. After accounting for payments, the total comes to $290.3 million. Active agreements are published every two years by the Comptroller. The Texas Education Agency posts all financial audits for school districts here: https://tealprod.tea.state.tx.us/Audit/Public/PDFViewer.asp.

UTAH (1/41/41)

Only one district reported $3.5 million in passively lost revenue. The Utah State Auditor is aware of the problem that places are not reporting TIF-related losses and has issued an auditor's alert. (As we explain in Chapter 4, the state altered its rules regarding the eligible uses of TIF proceeds to allow for direct developer reimbursements, making such payments "tax abatements" under GASB's guidance.) The State Auditor posts all financial audits for school districts and other local governments here: https://reporting.auditor.utah.gov/searchreport.

VERMONT (0/0/0)

All Vermont's school districts are part of supervisory unions established by the state.

VIRGINIA (0/20/132)

Only one school district in Virginia is independent. All others are component units. Twenty produce their own financial reports, the others don't. There are no GASB 77 disclosures in any of the CAFRs. As far as we can tell, the state does not post audited financial statements in an online repository.

WASHINGTON (33/188/299)

We have found all 188 CAFRs available (out of 299 districts). In 2019, 33 districts reported $9.0 million in FY 2019. The programs have to do with Native Americans, Tribal Lands, and religious organizations rather than businesses. The counties enter into agreements "independent of district decision or authority" (Arlington, 2019). Washington's school districts are not required to use GAAP. As far as we can tell, the state does not post audited financial statements in an online repository.

WEST VIRGINIA (33/55/55)

Even though 33 districts included GASB 77, most of them said there were no taxes abated. Only 10 districts reported some revenue loss, which totaled $7.4 million in FY 2019. West Virginia's school districts use GAAP accounting but are not required to. The State Auditor's Chief Inspector Division posts all financial audits for school districts and other local governments here: https://www.wvsao.gov/chiefinspector/.

WISCONSIN (1/212/420)

There is no data from Wisconsin districts most likely for two reasons: 1) Wisconsin relies a good deal on TIFs for economic development 2) The state has little oversight in local government reporting. Wisconsin's school districts are required to use GAAP. As far as we can tell, the state does not post audited financial statements in an online repository.

WYOMING (0/35/48)

Wyoming does not have many local tax abatements. Wyoming's school districts are required to use GAAP. As far as we can tell, the state does not post audited financial statements in an online repository.

APPENDIX B: DATA AND METHODOLOGY

This study is based on the FY 2019 tax abatement data from 10,370 school districts and covers all 50 states and D.C. Tax abatements are reported under *GASB Statement No.77: Note on Tax Abatement Disclosures* found in school districts' annual audited financial statements or comprehensive annual financial reports (CAFRs). The data on districts' revenues, total enrollment, racial composition, and percentage of students enrolled in free or reduced-price lunch program come from the National Center for Educational Statistics (NCES) surveys.

CAFRs or financial audits were obtained from the following sources in this order:

1. Center for Municipal Finance, in the *Library of CAFRs and Single Audits*: https://cafrs.municipalfinance.org/login
2. Electronic Municipal Market Access (EMMA), under *Financial Disclosures*: https://emma.msrb.org/
3. State repositories (for those that collect and post them; see Appendix A)
4. Individual school district websites
5. Email attachments from districts in response to our requests

We exhausted the first three sources, but because individual district searches (#4) and inquiries (#5) are time-consuming, we set a stopping rule: For each state, we stopped individual CAFR searches when

$$\frac{a}{b} \times \frac{x}{y} < 0.08, b \neq 0, y \neq 0$$

where a is the number of files still missing, b is the total number of school districts, x is the number of GASB 77 reporters so far, and y is the number of financial reports reviewed so far. For states with no GASB 77 reporters (i.e. $x = 0$), we stopped when

$$\frac{a}{b} < 0.5$$

The purpose of this stopping rule is to complete data collection in a reasonable timeframe while minimizing the chance of missing substantial GASB 77 data. Exceptions to this rule are states where most districts do not produce financial reports.

The CAFRs were stored locally and batch-searched in Adobe Reader for "tax abatement" and its (sometimes state-specific) variations. We also searched a commonly used word such as "financial" to identify image-only files. For these files, we manually searched the notes section for tax abatement disclosures.

We collected information on the program or agreement name, purpose, statutory authority, abating governments, mechanisms of revenue reduction, type of taxes, clawback provisions, and the abated amount. Since most school districts lose revenues passively, most of these details are not available (nor are they required by GASB of passive revenue losers). For districts that do not provide a dollar figure, we label them as GASB 77 reporters but treat the value fields as missing data. If a district did not specify an offsetting-revenue figure, we record it as $0.

After we collected the program information, we aggregated the dollar figures (gross foregone revenue, offset, and net foregone revenue) by district. The district-level data was then matched with NCES-assigned unique identifiers and demographic information. A categorical variable was added to indicate 0 = a district that is not a GASB 77 reporter, 1 = a district that is a GASB 77 reporter, and 2 = file unavailable/not found.

We compiled summary statistics from the district-level data. For the 1,806 districts that lost (or in rare instances, gained) revenue, we tested the relationship between race/poverty and total/per-pupil tax abatement spending using pairwise correlations and regression analyses. We found statistically significant relationships (higher tax abatements are associated with places with high student poverty and percentage of Black and Hispanic students), but the result should be carefully interpreted given how nearly half of the states had no tax abatement data.

We also did the tests for each of the states featured in Chapter 3. Significant relationships were observed for New York (sans New York City, race only) and Missouri, though the significance disappeared when Kansas City was removed from the sample.

Because of time constraints, we extracted FY 2017 data *only* for FY 2019 GASB 77 reporters. This means that districts that reported only in 2017 and not in 2019 are excluded (except for data already collected in our 2018 report The New Math on School Finance). We do not expect this exclusion to make a substantial difference to our temporal analyses, because there is a very strong correlation between reporting in 2017 and reporting in 2019, based on our previous research. If we were to restrict our sample to those that reported in both years, the percent increase between 2017 and 2019 would be approximately the same.

The final data universe for this project consists of 10,370 FY 2019 school district CAFRs, FY 2019 program-level data extracted from GASB 77 disclosures, district-level data on foregone revenue in FY 2019 and FY 2017 (from select 2017 CAFRs), and state-level summary data.

All of the data collected for this study is now displayed in our online database, "Tax Break Tracker" at: https://www.goodjobsfirst.org/taxbreaktracker.

APPENDIX C: WHAT ARE GASB AND STATEMENT 77?

The Governmental Accounting Standards Board (GASB) is the professional organization that establishes and constantly improves standards of accounting and financial reporting for U.S. state and local governments. GASB's rules are known as Generally Accepted Accounting Principles, or GAAP. When GASB issues an update or amendment to GAAP, it takes the form of a Statement. GASB is a project of a non-profit group, the Financial Accounting Foundation, in Norwalk, Connecticut. FAF is also parent to the Financial Accounting Standards Board, or FASB, which creates GAAP for the *private* sector.

Most states, by law or administrative code, require at least some local government bodies (school districts, cities, counties, etc.) to conform to GAAP. School districts may also comply with GAAP for two additional reasons: to get the best-possible credit ratings (and therefore the lowest borrowing costs) when they issue bonds; or because they receive more than $750,000 per year in federal support (true of many large and/or low-income districts) in which case GAAP accounting is required.

For decades, however, there was a big gap in GAAP: GASB had never set forth rules for any form of tax expenditures—when governments reduce or exempt taxes for public policy purposes. Such spending takes many forms: for example, states grant personal income tax breaks for things such as home ownership; they also grant corporate tax breaks for job creation. This gap in GAAP was a big omission, given that on the economic development side alone, states and localities spend an estimated $70 billion per year, most of that in the form of tax abatement deals to individual companies.

In October 2014, GASB broke its silence on tax expenditures and issued an Exposure Draft on Tax Abatement Disclosures (with "tax abatements" as its umbrella term for all kinds of economic development tax breaks: property, sales and/or income taxes). There followed a three-month public-comment period during which 298 comments were filed, signed by hundreds of organizations and individuals. After considering those comments, GASB issued Statement No. 77 on Tax Abatement Disclosures in August 2015.

The new accounting rule requires governments to report not only revenue they lose actively due to their own actions, but also revenue they lose passively, i.e., as a result of tax abatements implemented by any other government. This passive-loss reporting requirement is especially important for public schools, because in most states, city or county governments have the legal authority to grant tax abatements even though the biggest revenue loss will be suffered by the local school district.

This amendment to GAAP took effect for some governments as of calendar 2016, but the vast majority of school districts are on a non-calendar budget schedule, so for them it took effect starting in FY 2017 (July 1, 2016 in many cases). GASB 77 data appears in comprehensive annual financial reports (CAFRs) or annual financial aeports (AFRs) or single audits as a narrative. Note, not in the governmental body's balance sheet. CAFRs and AFRs are reports of a prior year's expenditures, not forward-looking budgets.

To the extent states enforce compliance with GAAP, that is the duty of a state's comptroller, auditor, treasurer and/or education department. There is a great deal of variation in how such oversight occurs, and as we detail in this study, sometimes that oversight is quite lax. To help concerned parties better understand these processes, Good Jobs First has published 51 state-specific "roadmaps" as references: https://www.goodjobsfirst.org/good-jobs-first-gasb-77-state-roadmaps.

ENDNOTES

1 *Protecting Public Education from Tax Giveaways to Corporations*. Good Jobs First. 2003. https://www.goodjobsfirst.org/sites/default/files/docs/pdf/edu.pdf

2 All quotations in this section are from Statement No. 77, accessible here: https://www.gasb.org/cs/ContentServer?c=Document_C&cid=1176166283745&d=&pagename=GASB%2FDocument_C%2FGASBDocumentPage.

3 Offsets reported in the absence of gross abated amounts are excluded.

4 These only include districts that are not part of ”supervisory unions”, which are regional agencies.

5 There are 13,074 local public school districts that are not part of a supervisory union according to the latest data (2018-2019) from the National Center for Education Statistics. About 1,000 of them do not produce financial reports.

6 Nine million, four hundred thousand students were enrolled in the 1,784 districts that reported net abatements losses, making the nationwide per-pupil tax abatement spending $250. However, that national average obscures wide variations.

7 Based on linear regression models that control for district size.

8 In addition, New Hampshire and Vermont have 2 and 0 local public school districts, respectively, since school districts that are part of supervisory unions are excluded from our study sample.

9 Good Jobs First. 2003. *Protecting Public Education from Tax Giveaways to Corporations,* op cit. https://www.goodjobsfirst.org/sites/default/files/docs/pdf/edu.pdf .

10 The New York Times. Feb 5, 2019. "A School Board Says No to Big Oil, and Alarms Sound in Business-Friendly Louisiana." https://www.nytimes.com/2019/02/05/us/louisiana-itep-exxon-mobil.html.

11 GASB Implementation Guide No. 2017-1. https://www.gasb.org/jsp/GASB/Document_C/DocumentPage&cid=1176168990840

12 Some districts raise levy to make up for the revenue loss of tax abatements, but that just means the cost is redistributed on other taxpayers.

13 Good Jobs First. 2020. The Revenue Impact of Corporate Tax Incentives on South Carolina Public Schools. https://www.goodjobsfirst.org/hide/revenue-impact-corporate-tax-incentives-south-carolina-public-schools.

14 Texas Comptroller of Public Accounts. *Texas Economic Development Act Biennial Reports*. https://comptroller.texas.gov/economy/local/ch313/biennial-reports.php.

15 Telephone conversation with Mississippi Office of the State Auditor on 2/8/2021.

16 Email exchange with Minnesota Office of the State Auditor on 2/8/2021.

17 These cases are a number of districts issue "tax abatement bonds," which are incentives financed by other taxpayers, but did not include GASB 77 disclosures in their FY 2019 CAFRs.

18 Email exchange with Idaho State Legislature Legislative Audit Division on 2/9/2021.

19 Email exchange with Idaho State Board of Education on 2/11/2021.

20 Telephone conversation with Utah Office of the State Auditor on 2/8/2021.

21 Utah Office of the State Auditor. 2020. "Auditor Alert – 2020-04 Tax Abatement Disclosures and Foregone Revenue (GASB 77)." https://auditor.utah.gov/wp-content/uploads/sites/6/2021/02/2020-04-Tax-Abatement-Disclosures-and-Foregone-Revenue-GASB-77_2_18_2021.pdf.

22 See the second comment at page 14 of the pdf here: BlobServer (gasb.org)

23 See Implementation Guide No. 2018-1, Implementation Guidance Update—2018 (gasb.org).

24 Email exchange with Tennessee Comptroller of the Treasury 2/9/2021.

25 Newport Independent School District. "Financial Statements with Supplementary Information Year Ended June 30, 2019 With Independent Auditors' Report." (p. 53).

26 Email exchange with California Office of the State Controller on 3/8/2021

27 Two other districts used the same wording: For the abated amount, one meant "net" while the other meant "gross." Numerous other districts used similar wording (without the word "subsequently"): Most meant "net", but a few meant "gross." Not only is such wording misleading, but it renders the data for the entire state unreliable. Because we did not have the time to contact each district for verification (and not all we reached out to responded), we assumed that the abated amount is the "net" revenue reduction based on the responses we did receive.

28 Kenyon, D.A., Langley, A.H., and Paquin, B.P. 2012. Rethinking Property Tax Incentives for Business. https://www.lincolninst.edu/publications/policy-focus-reports/rethinking-property-tax-incentives-business.

29 Policy Matters Ohio. 2018. *A flash of tax break transparency: New rule not being used to its fullest potential.* https://www.policymattersohio.org/press-room/2018/01/17/a-flash-of-tax-break-transparency-new-rule-not-being-used-to-its-fullest-potential.

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