

# Key Reforms: Protecting Schools

## Reform #4: Protect Schools from Tax Giveaways

### *Tax abatements harm public school budgets*

Can you imagine your local school board passing a resolution that allows a company to pay no property tax for the fire department and the police department? Of course not. But that is exactly what is happening to school boards in most states when city councils and county boards pass tax abatements.

Local property taxes are a key source of funding for public schools, supplying almost a third of the budgets for K-12 education. Local governments are responsible for collecting property taxes; in most states they also have the power to exempt companies from paying these taxes as an enticement to build facilities within their jurisdiction. When local governments grant tax abatements, school budgets often bear the brunt of their generosity, with very little input – let alone a vote – from school boards or local citizens.

Two types of economic development subsidies have a particularly large impact on school funding: property tax abatements and property tax diversions. Property tax abatements exempt companies from paying taxes on all or part of the value of the company's property for a specified number of years. Property tax diversions, typically authorized through a subsidy program called tax increment financing, or TIF, channel a portion of tax revenue to pay for infrastructure and construction costs in special redevelopment areas.

Property tax abatements and diversions are typically among the costliest and lengthiest development subsidies; it is not uncommon for such a subsidy to last up to 20 years. TIF districts are often particularly corrosive to school budgets, diverting not only the tax revenue from a particular subsidized project, but also the revenues from an entire "redevelopment area," regardless of whether the development that occurs over the life of the district is a result of the initial subsidized project.

### *Poor schools undermine economic development*

Given the fundamental importance of public education for maintaining a high-quality workforce, it's especially unfortunate that so much property tax revenue is given away in the name of economic development. When

companies evaluate areas in which to relocate or expand, the single most important feature they look for is an adequate supply of skilled labor. And the most important quality-of-life issue they consider is the condition of local schools. A good education system boosts economic development not just because it helps attract employers, but also because it produces smart learners who grow up to become skilled workers, making companies more productive and the region more competitive.

Many schools are already contending with funding shortfalls, as states cut spending in the face of fiscal crises. Property tax abatements undermine essential local funding for schools at the time when they need it most: when they are adding businesses and residents. When companies grow, build facilities, and bring in staff and their families, they add to local school enrollments and generate demand for more teachers and classrooms.

Since subsidies like TIF are often aimed at redeveloping declining urban areas, school districts in areas with few resources and high poverty rates are the ones that are hardest hit by tax abatements. An Ohio state audit found schools in Cleveland were losing \$9.2 million a year on just eight subsidized projects at a time the district was closing schools, cutting sports programs, and laying off teachers. In Toledo, where almost a third of students weren't graduating from high school, an audit found that abatements cost schools \$13.7 million a year, or 14 percent of their budget. By allowing property tax abatements to drain school budgets, local officials are endangering the long-term economic vitality of their regions (see the Good Jobs First/NEA study [\*Protecting Public Education from Giveaways to Corporations\*](#)).

*Who decides?*

Although city councils, county boards, or other local bodies generally control the awarding of property tax abatements and TIF, the states are responsible for legally enabling and regulating the programs. A total of 43 states allow local governments to offer property tax abatements, and 48 states permit tax increment financing. All 50 states offer at least one of the subsidies, and only a handful give school officials a say over their use or shield schools from loss of revenue. The result is that abatements cost schools millions of dollars in revenue each year, through subsidy deals that can last for two decades or more.

A study issued in 2003 by the National Education Association and Good Jobs First surveyed the issue nationally, looking at states with abatements and TIF and whether they protect schools from them. It looked especially at what say

— if any — school boards have. It found that in the vast majority of states, school boards have no say regarding the granting of abatements or TIF. They have no seats on the boards that make the decision; they don't even get consulted (see [Protecting Public Education from Giveaways to Corporations](#)).

### *Best practice*

School boards should control the share of property tax revenue that comes in for their budgets, in the same way they are held accountable for how the money is spent. There are two ways in which a few states currently ensure that school boards have this control: by shielding schools from tax abatements by prohibiting the school portion of taxes from being abated, and by giving school boards veto power over abatement decisions.

The strongest way to protect school revenues from being depleted by business subsidies is for the state government to prohibit the abatement or diversion of the school portion of property taxes. Since states set the rules for how local governments use abatements, states can amend those rules to say that school funding may not be touched.

A few states have already done this. Florida has three kinds of local tax incentives that affect property taxes: property tax abatements, enterprise zones, and tax increment financing. None of these affect schools, however, because Florida explicitly forbids abatement or diversion of the school portion of local property taxes (the city and county portions can still be used for subsidies). Maryland also shields school revenues from both abatements and TIF, and eight additional states shield schools from either one program or the other.

Giving school boards a formal say in subsidy decision-making is another line of defense for school funding. School boards should have a full voting seat on any board that abates or diverts property tax revenue away from schools. And separately, school boards should have the right to vote up or down on each deal for the school portion that would be abated or diverted.

At least five states – Kansas, Minnesota, Ohio (to a certain extent), Pennsylvania, and Texas – say school boards must give their approval before the school portion of property taxes is abated. Seven states do the same for TIF, although two of those are limited: Colorado, Michigan (limited), Ohio (limited), Oklahoma, Pennsylvania, South Carolina, and Texas.

More school districts are poised to take action on this issue. There has been very little media coverage, but school board associations in at least 21 states have researched or lobbied on the issue of abatements and/or TIF. Many have sought to convince their legislature to protect school revenues from subsidies or at least give school boards some say.

### *Caveats*

Regulations differ from state to state and are often complex. Education advocates need to understand and discuss the specific policies and practices in their own states, cities, and counties and work in their communities to define solutions that protect jobs, encourage growth, and promote quality public education.

Some states have taken steps to protect schools from tax abatements that are better than nothing but not strong enough to warrant mention under “best practice.” While only the states listed above completely protect school budgets from tax breaks, at least 14 states make it possible for school boards or localities to negotiate what is called a Payment in Lieu of Taxes (or PILOT), a payment made by companies to the school district in the place of their normal tax payment. However, the amount of money a company pays in a PILOT is often just a fraction of what it would pay if it did not get an abatement.

Similarly, a number of states in addition to those listed above give school boards less powerful roles in the approval process, through mechanisms such as a seat on a subsidy advisory panel or requirements that local governments notify their school boards of proposed abatements and give them a chance to comment. Interviews with state school board officials indicate that such mechanisms are not sufficient to ensure that schools can truly protect their budget — only a vote on subsidies and veto power over the school portion of abatements can do that.

It should be noted, however, that even when local school revenues are shielded from the impact of tax abatements, subsidies awarded on the state level indirectly impact schools, since a portion of school funding come from the state budget.

In addition to the reforms discussed here, strong disclosure and clawback laws are important for providing an accurate measure of the impact of subsidies on school revenue and protecting schools districts that do approve abatements from losing money to companies that fail to meet their promises on investment, job creation, or wage levels.