



United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

B-256253

April 21, 1994

The Honorable Howard M. Metzenbaum
United States Senate

Dear Senator Metzenbaum:

This letter responds to your request that we review the impact of tax abatements¹ on several large city school districts. We briefed your staff on September 21, 1993, on the results of our survey of five school districts in Cleveland, Philadelphia, St. Louis, and San Antonio.² (See the enclosed briefing charts for information presented in the briefing.)

This effort follows work that you previously requested on the impact of property tax abatements on public school funding, which we reported to you on May 21, 1993 (GAO/HRD-93-27R). That work showed that the true impact of property tax abatements on public school funding was unclear and debatable. Thirty-two states offered property tax abatements to businesses. However, more than half of these states protected their schools against possible adverse impacts of abatements through means such as payments instead of taxes or not allowing abatement of school property taxes. Available data provided by some states that did not protect their schools indicated that tax abatements had little potential for widespread impact on public school funding.

Of the four large cities we visited in this review, school district officials in two of the cities did not believe tax abatements had a major impact on school funding. They believed that other factors, such as declining state aid, were a greater revenue problem. School district officials

¹Tax abatements are a temporary suspension, for a certain period, usually 5 to 10 years, of all or some of the tax on property owned by a business.

²We visited two school districts in San Antonio--the San Antonio Independent School District and Northside Independent School District.

in one of the cities believed that tax abatement was as responsible for the district's revenue problems as stagnant state aid. School district officials in the fourth city believed tax abatements increased their revenues by generally stimulating the local economy or requiring the payment of back taxes to the schools when agricultural land is converted to developed property. In 1992, revenue forgone to business and residential tax abatement in the five school districts ranged from 0.11 percent to 1.9 percent of total school district revenues.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine the extent to which big city schools were losing money to property tax abatements given to businesses. We selected Cleveland, Philadelphia, and St. Louis for our study because the school districts' responses to a 1992 National Association of School Board Advisors survey indicated that each district lost large amounts of revenue to business property tax abatements. We selected San Antonio because the city's school districts can choose not to participate in local tax abatement programs. San Antonio has 10 independent school districts, and we surveyed the two school districts that had given the most property tax abatements.

At each district, we interviewed city and school district officials to identify applicable tax policies and tax abatement criteria and to get their perceptions on the effect of tax abatements on school funding. To determine the amount of revenue forgone to tax abatements by the school districts, we obtained and analyzed property tax, assessed property value, and school millage rate data on property tax abatements granted to businesses in each of the school districts.

TAX ABATEMENT NOT CONSIDERED MAJOR REVENUE PROBLEM

Officials in four of the five school districts we visited did not view tax abatements as a primary cause of financial difficulties. Although officials in each of the five school districts said they were struggling financially, only St. Louis district officials believed tax abatements were a primary cause for their current financial difficulties. School revenues forgone in the five districts in 1992 due to business and residential tax abatements equal a relatively small percentage of total district revenue--ranging from 0.11 percent to 1.9 percent.

In addition, none of the school districts saw a need for federal intervention in the tax abatement issue.

Officials cited other factors as causing more significant financial problems for the districts. They said sluggish state aid, federal and state unfunded mandates, property tax limitation laws, and exempt property had a greater effect than tax abatements on school district finances in all districts but St. Louis. In St. Louis, stagnant state aid was as great a financial problem as tax abatements, according to district officials.

Stagnant state aid and to some extent real declines in state aid were a major revenue problem cited in all but one school district we visited. The recent sluggish economy was partly to blame for states' reduced contributions to state aid, Cleveland school district officials told us. Unfunded mandates were also a factor in stagnant state aid, they said, because unfunded mandates reduce states' general funds. As a result, schools must compete with these unfunded programs for state revenues.

Revenue demands of state and federal unfunded mandates were also a primary reason for financial problems, according to school district officials in Cleveland, Philadelphia, and San Antonio. For example, some federal mandates, such as the Americans with Disabilities Act (ADA), affect schools directly. One school district official in San Antonio told us that, to comply with ADA, the district will have to lower the schools' drinking fountains by 17 inches to provide access for wheelchair users. Although schools want to comply with ADA and other mandates, compliance costs strain school districts' budgets.

In Cleveland, State House Bill 920 was also a major factor in the school district's inability to keep up with revenue needs. Under the taxing provisions enacted in the bill, school districts can no longer receive tax revenue increases that result when property values appreciate due to inflation. Due to House Bill 920 and stagnant state aid payments, the Cleveland school district must rely more on new construction for additional property tax revenue. However, new residential and commercial construction is eligible for property tax abatement in Ohio.

Tax-exempt property caused revenue problems in two school districts, according to school district officials. In St. Louis, school district officials told us that increases in nonprofit and government tax-exempt property hurt the

school district financially because it lost revenue sources when taxable property was converted to entirely tax-exempt property. School district officials in Philadelphia also said that the amount of tax-exempt federal property in the city created financial difficulties for the schools. The value of the totally exempt properties in Philadelphia in 1992 was more than six times greater than the value of tax-abated property--23.2 percent versus 3.6 percent of total property value, respectively.

Only one school district, St. Louis, said that tax abatements were a major revenue problem for the school district. School district officials said the 25-year length of abatements in the city causes some revenue problems. Moreover, almost all new businesses in St. Louis have received an abatement.

Tax abatement decisions prompted legal action in St. Louis and threats of legal action in Cleveland--when school districts were forced to participate in abatement programs and school officials felt their views were not considered. In both cities, previous local government administrations were unsympathetic to the school districts' requests for prudence in granting tax abatements. As a result, Cleveland's school board threatened to take legal action against the city's plans to proceed with two tax increment financing projects.³ St. Louis's school board sued the city for approving a 25-year tax abatement that the school board believed was inappropriate. However, the school board's legal action failed, and the board filed an appeal in May 1993 that is still pending.

In both St. Louis and Cleveland, new city leadership resulted in better rapport between the school district and the city, leading to tax abatement compromises. Cleveland school district officials said that the new local government administration exhibited a more cooperative and considerate attitude toward the school district's concerns, and the percentage of taxes abatable was reduced from 100 percent to a maximum of 70 percent. In St. Louis, under the new mayor, the length of most new abatements was

³Tax increment financing is an instrument used by local governments to finance infrastructure improvements. Tax increment financing authorities (TIFAs), established by local governments, freeze property tax revenue at a given point in time. Thereafter, any increase in property tax revenue is diverted for financing a TIFA project.

reduced from 25 years to 10 years. However, school district officials still believe that too many businesses are receiving tax abatement.

SCHOOL DISTRICTS' OPINIONS OF
TAX ABATEMENTS VARY

Officials in each of the five school districts believed that economic development benefitted their communities and school districts. However, two of the five districts expressed some frustration with tax abatements, and three were either neutral or supported them.

Both Cleveland and St. Louis school district officials expressed a desire to share in the cities' other revenue sources, since the school districts have no say in tax abatements. The city governments receive a smaller share of a community's total property tax revenues than do school districts, according to Cleveland and St. Louis school district officials. As a result, when the city grants a tax abatement, it forgoes less property tax revenue than its school district. Both Cleveland and St. Louis city governments may increase their overall revenue, however, through other revenue sources such as income taxes or sales taxes generated by new businesses. These other local revenue sources are generally not available to the school districts.

Philadelphia and San Antonio school districts reported different situations from those of Cleveland and St. Louis. Philadelphia school district officials were neither for nor against tax abatements. The city's tax abatements have a maximum length of only 3 years, and, according to school district officials, it is difficult to know if businesses would have located in Philadelphia without tax abatements.

School districts in San Antonio reported increased revenues due to tax abatements and were pleased with the level of cooperation and coordination from the city and county. One school district cited gains to the overall community because developers who receive tax abatements must purchase supplies from local businesses and employ local residents. The other school district reported increased revenues as a result of tax abatements because agricultural land is assessed and taxed at a much lower rate than developed property in Texas. Any developer that converts agricultural land to developed property must pay a rollback recovery amount to the schools equal to 5 years of back taxes at the higher tax rate for developed property.

Reasons Districts Participate
in Tax Abatement Programs

School districts in San Antonio do not have to participate in the state-authorized tax abatement program although they have chosen to do so in every case. In fact, San Antonio School District officials have initiated tax abatements in their jurisdiction to retain jobs and residents that otherwise would have left the district. When granting abatements, San Antonio city officials receive input from every affected taxing jurisdiction. Representatives from the city, county, school district, and community college negotiate the abatement terms before it is granted.

The school district of Albany, New York, (included in the work covered by our May 21, 1993, report, GAO/HRD-93-27R) also chose to participate in a tax abatement program when not required. However, tax abatements in Albany expire in just 5 years, with the abatement amount starting at 50 percent and declining 10 percent annually. According to Albany School District's assistant superintendent, tax abatements do not appear to directly benefit the school district, but it is difficult to determine if a business would have located in Albany without a tax abatement. Without the school district's participation, tax abatements in Albany would be somewhat ineffective since about two-thirds of local property taxes are for the school district, and abatement of the remaining one-third would not offer much incentive.

TAX ABATEMENTS AND STUDENT ENROLLMENT

Another concern you expressed was that tax abatements may increase student enrollment and lead to increased financial expenditures by school districts. School district officials in each of the districts we visited told us that tax abatements did not increase student enrollment. In fact, from fiscal year 1983 to fiscal year 1992, four of the five districts, enrollment decreased. Northside School District, in San Antonio, was the only district whose enrollment increased--49 percent since 1983. Northside School District officials believe enrollment increased because the northern area of San Antonio has become an attractive bedroom community for young couples with


B-256253

children. However, officials did not believe that tax abatements were responsible for the large influx of these families.

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If you or your staff have any questions on this letter, please contact me on (202) 512-6805.

Sincerely yours,



Gregory J. McDonald
Director of Operations

Enclosure

GAO Health, Education, and Human
Services Division

Nature and Extent of
Tax Abatements in
Four Cities

March 1994

GAO Objective

Determine the impact of tax
abatements on public school
funding in four large cities

GAO Scope

School districts visited—

- Cleveland
- Philadelphia
- St. Louis
- San Antonio
- Northside*

*located in San Antonio

GAO Scope

School districts visited—

- Cleveland
- Philadelphia
- St. Louis
- San Antonio
- Northside*

*located in San Antonio

GAO Overall Conclusion

Other financial problems more significant to schools:

- stagnant state aid,
 - federal and state unfunded mandates,
 - property tax limitation laws, and
 - exempt property.
-

GAO Nature of Tax Abatements in Cleveland

Amount

- Up to 100%—now 70%

Lengths

- Up to
 - 20 years, impacted city
 - 15 years, new construction
 - 12 years, rehabilitation
 - 10 years, enterprise zone

Who qualifies

- All businesses and residents
-

NATURE OF PROPERTY TAX ABATEMENTS IN CLEVELAND

Cleveland has three property tax abatement programs that can affect school district funding: the (1) enterprise zone program, (2) impacted city program, and (3) community reinvestment area program. The first two programs are for businesses only, while the last program is mainly for residential improvements. All three programs are authorized to abate up to 100 percent of new taxes on improved property. However, under the current mayor's administration, the maximum abatement granted to businesses has been limited to 70 percent of property taxes on improvements, and many businesses have received less than 70 percent.

The enterprise zone program provides a 10-year abatement. Enterprise zone abatements are available to businesses investing an amount that will increase the existing facility's value by at least 10 percent. The city limits this incentive to manufacturers only.

The impacted city program provides property tax abatements primarily to large commercial investors. Cleveland's Community Development Department must determine that the proposed abatement site is blighted before an abatement can be granted. The city must also devise an urban renewal plan for the site before abatement. The maximum abatement length is 20 years although Cleveland city officials believed that 20-year tax abatements were too long. Because of this, they have not used the impacted city abatement program under the current mayor.

The community reinvestment area program provides property tax abatement for up to 12 years on the rehabilitation of an existing business facility and up to 15 years for new business construction. However, only about 5 percent of all abatements ever granted under this program were to businesses. The remaining 95 percent were for residential rehabilitation and new residential construction. The program provides a 100-percent tax abatement for up to 10 years on residential improvements.

GAO Property Abated in Cleveland in 1992

- \$149 million in assessed property value (both residential and business) or
- 3% of total city assessed property value

EXTENT OF PROPERTY ABATED IN CLEVELAND

In 1992, Cleveland's real property, including exempt property, was assessed at \$5.0 billion. About \$149 million,⁴ or 3 percent of this total, was tax-abated property under one of the city's three tax abatement programs.

Cleveland assesses real property value at 35 percent of full market value. Therefore, the estimated full market value of the abated property equaled approximately \$424.6 million in 1992. For a comparison with other cities we visited, see appendix I.

⁴This number includes all three abatement programs plus some municipal exemptions. City officials could not separate the two business tax abatement programs--impacted city and enterprise zone--from the community reinvestment area program and municipal exemptions.

GAO 1992 Revenue Profile for
Cleveland School District

Property tax accounted for 37%
of total school district
revenues.

Revenue sources

- 39.6%—local
- 51.0%—state
- 9.4%—federal

Property tax accounted for
93.3% of total local sources.

REVENUE PROFILE FOR CLEVELAND SCHOOL DISTRICT

In 1992, property tax revenues accounted for 93.3 percent of city revenues in Cleveland but only 37 percent of the school district's revenues. The school district got the remaining 63 percent of its revenues from sources, including other local revenue, from earnings on investments, tuition, and other income (2.7 percent), state aid (51 percent), and federal assistance (9.4 percent). See appendix I for a comparison with other cities we visited.

**GAO School Revenues Forgone in
Cleveland School District in 1992**

- \$5.5 million in school property tax revenues or

- 1.2% of total school district revenue

EXTENT OF CLEVELAND SCHOOL DISTRICT'S
REVENUES FORGONE TO TAX ABATEMENTS

In 1992, the Cleveland school district gave up an estimated \$5.5 million⁵ of property tax revenues due to property tax abatements. We based this estimate on the district's levy of 37.13 mills multiplied by \$149 million of property value abated in Cleveland. Revenue forgone due to tax abatements was about 1.2 percent of the district's total school revenues of \$443 million in 1992.

⁵The \$149 million used to calculate this number includes all three abatement programs plus some municipal exemptions. As stated earlier, city officials could not separate the business tax abatements from this amount.

GAO Cleveland School District's Revenue Problems

- Decline in state aid
- Unfunded federal and state mandates
- Previous labor agreements
- State House Bill 920

CLEVELAND SCHOOL DISTRICT'S REVENUE PROBLEMS

Cleveland school district officials cited four primary revenue problems: (1) decline in state aid, (2) unfunded federal and state mandates, (3) previous labor agreements, and (4) state House Bill 920. State aid is the district's largest revenue source, accounting for more than half of the total revenues in 1992. When adjusted for inflation, state aid decreased since 1990 due to state budget constraints. According to school district officials, part of the reason for the stagnant state aid is competition with unfunded federal and state mandates. In certain cases, when the state or federal government enact an unfunded mandate, a strain is placed on the state's general fund. Thus, the school district must compete with unfunded mandates for a share of the general revenue fund. Moreover, school district officials said that previous labor agreements are also a revenue problem because the cost increases guaranteed in the contracts have exceeded the district's revenue increases.

Finally, school district officials said Ohio's House Bill 920 constrains the school district's second largest revenue source-- property tax revenues. House Bill 920 limits the amount of property tax revenue the school district can raise through tax levies on existing real property. The bill was intended to counteract tax increases due to inflation. This poses a problem,

school district officials told us, because the district's expenditures continue to rise due to inflation.

GAO Threats of Legal Actions by Cleveland School District

- Two threats of action against TIFs — no cases filed

- Threats influenced bond issues

THREATS OF LEGAL ACTION BY CLEVELAND SCHOOL DISTRICT

The school board has not filed a lawsuit against any of Cleveland's tax abatement projects. However, it threatened to sue the city if two tax increment financing (TIF)⁶ projects were approved--the Rock 'n' Roll Hall of Fame and Playhouse Square projects. According to the school district's legal counsel, suing the city over tax abatements would be ineffective because tax abatements do not involve a public funding source. However, threatening to sue over the TIF projects could adversely affect the city's plans to issue bonds to finance the proposed construction. The school board believed that investors would be less willing to purchase bonds if they believed the bonds to be at risk of default due to legal action.

⁶Tax increment financing is an instrument used by local governments to finance infrastructure improvements. TIFAs, established by local governments, freeze property tax revenue at a given point in time. Thereafter, any increase in property tax revenue is diverted for financing a TIFA project.

Because of the legal threats, the city agreed to reimburse the school district some of the property tax revenue forgone to the two TIF projects. The school district will receive a 6-percent tax on admissions for the Rock 'n' Roll Hall of Fame that will be distributed to the schools monthly until a cap of \$15,125,000 is reached. The tax will go into effect when the Hall of Fame is completed in late 1995 or early 1996. The Playhouse Square hotel project paid the school district a one-time sum of \$75,000 in October 1993. In addition, the owners of Playhouse Square will provide at least one employment training program to Cleveland school district students in the first 7 years of the hotel's operation. The program will be hotel/restaurant-related training. School district officials estimated that the district will forgo \$33 million in property taxes for the two projects during a 20-year period--\$26 million and \$7 million, respectively.

The school board's opposition to tax abatements and the newly elected mayor's willingness to cooperate with the school district also resulted in two new state laws. One law requires the city to notify the school district of a pending tax abatement and allow it to have input into the tax abatement decision. The other law allows the Board of Education in the school district to negotiate with the political subdivision and enter into an agreement for compensation for any loss of property tax revenue resulting from the tax abatement.

GAO Exempt Property in Cleveland

- \$1.3 billion in property value or
 - 26.7% of total property value in 1992
 - includes churches, charities, cemeteries, etc.
-

EXEMPT PROPERTY IN CLEVELAND

In 1992, about 26.7 percent, or \$1.3 billion, of Cleveland's property value was tax exempt. These exempt properties included federal, state, and local government property, educational entities, charitable institutions, churches, cemeteries, and monuments. For example, exempt property value of

- \$363 million was owned by charitable institutions,
- \$264 million was owned by the City of Cleveland,
- \$91 million was owned by churches, and
- \$88 million was owned by the county.

GAO Nature of Tax Abatements in
Philadelphia

Amount

- 100%

Length

- 3 years

Who qualifies

- All businesses and residents
-

NATURE OF PROPERTY TAX ABATEMENTS IN PHILADELPHIA

Philadelphia offers a 3-year, 100-percent property tax abatement to industrial and commercial business owners and developers for new construction or expansion of an existing business. The abatement is also available to homeowners, home purchasers, and residential developers in deteriorating places.

GAO Business Property Abated in Philadelphia in 1992

- \$437 million in assessed property value (business and some residential) or
- 3.4% of total city assessed property value

EXTENT OF BUSINESS PROPERTY ABATED IN PHILADELPHIA

In 1992, Philadelphia's total taxable property value, including exempt property, was assessed at \$13 billion. About \$437 million,⁷ or 3.4 percent, of this total was primarily tax abated business property.

Philadelphia assesses business property at 32 percent of current market value. Abated business property in Philadelphia had a full market value of about \$1.4 billion.⁸ See appendix I for a comparison with other cities we visited.

⁷This amount includes some residential property abated from property tax under a 5-year abatement program repealed in fiscal year 1991. The program was for developers of condominiums in which one-third of the overall project was commercial development.

⁸This figure includes some residential property at market value.

**GAO 1992 Revenue Profile for
Philadelphia School District**

**Property tax accounted for
34.8% of total school district
revenues.**

Revenue sources

- 46.9%—local
- 53.0%—state
- 0.1%—federal

**Property tax accounted for
74.1% of local sources.**

REVENUE PROFILE FOR PHILADELPHIA
SCHOOL DISTRICT

Property tax represented 74.1 percent of the Philadelphia school district's locally generated revenues. However, property tax represented only 34.8 percent of the district's total revenues in fiscal year 1992. The remaining 65.2 percent of the school district's total revenue came from sources, including other local revenues such as business and occupancy tax, public utility tax, and payments instead of taxes (12 percent), state aid (53.0 percent), and federal assistance (0.1 percent). See appendix I for comparison with other cities we visited.

GAO School Revenues Forgone in Philadelphia School District in 1992

- \$19.8 million in school property tax revenues (business and some residential) or
- 1.7% of total school district revenue in 1992

EXTENT OF PHILADELPHIA SCHOOL DISTRICT'S REVENUE FORGONE TO ABATEMENTS

Philadelphia school district officials estimated that they had forgone about \$19.8 million in property tax revenues in 1992 due to business and some residential tax abatements. This represented 1.7 percent of the school district's \$1.1 billion in total school revenues for 1992. School district officials based their estimate on the district's average levy of 45.19 mills multiplied by \$437 million in tax-abated business and condominium residential property value in 1992.

The Philadelphia school district does not have the option of not participating in tax abatements granted by the city, unlike other school districts in Pennsylvania. This is because the district is dependent upon the city and receives its funding through the city. The city levies a single property tax for all the taxing entities in its boundaries. The school district's share of the property tax levy is 55 percent, which has remained constant since 1983. According to school district officials, the city has not taken tax abatements into consideration when determining the school district's share of the millage rate. However, the city council raised the millage rate twice in the last 10 years, and the school district's share has remained at 55 percent.

GAO Philadelphia School District's Revenue Problems

- Stagnant state aid
- Unfunded federal mandates
- Federally owned exempt property

PHILADELPHIA SCHOOL DISTRICT'S REVENUE PROBLEMS

Revenue problems cited by Philadelphia school district officials included (1) stagnant state aid, (2) unfunded federal mandates, and (3) exempt property. According to the officials, stagnant state aid has forced the school district to cut \$65 million from its budget in the past several years. School district officials reported that state aid remained the same in fiscal years 1992 and 1993, while increasing only 2 percent for the current fiscal year--1994.

Unfunded federal mandates placed additional strains on the school district's budget, according to school district officials. The number of legal immigrants in the city has recently increased. Philadelphia school district officials reported that federal mandates requiring schools to provide special education for immigrants has imposed a financial burden on the school district's budget.

The officials also reported that the amount of tax-exempt property in the city created another financial problem. The value of tax-exempt properties in Philadelphia is much greater than that of tax-abated properties. Officials would like these property owners to provide payments instead of taxes for tax-exempt properties.

GAO Exempt Property in
Philadelphia in 1992

- \$2.9 billion in property value or
- 23.2% of total assessed property value
- Includes churches, hospitals, cemeteries, etc.

EXEMPT PROPERTY IN PHILADELPHIA

About 23.2 percent, or \$2.9 billion, of property value was exempt from property taxes in Philadelphia during fiscal year 1992. These exempt properties included hospitals, educational entities, federal land, churches, and cemeteries. For example, exempt property valued at

- \$419.2 million was owned by medical health facilities,
- \$299.4 million was owned by colleges and universities,
- \$253.0 million was owned by the U.S. government,
- \$203.1 million was owned by religious organizations, and
- \$10.9 million was in the form of cemeteries.

GAO Nature of Tax Abatements in St. Louis

Amounts and lengths

- 25 years
 - 100% first 10 years
 - 50% following 15 years

Who qualifies

- All businesses and residents
-

NATURE OF TAX ABATEMENTS IN ST. LOUIS

The City of St. Louis maintains three types of tax abatement programs to provide assistance to redevelop properties that it has determined to be blighted. These programs provide a 25-year tax abatement to residents and businesses. Property owners receive a 100-percent abatement on the increased value of their property for the first 10 years. After 10 years, property values are reassessed, and owners are eligible for an abatement on 50 percent of the improvement for the remaining 15 years. Most businesses currently receive only a 10-year abatement, while approximately 5 percent of businesses have received the full 25-year abatement. Residents, however, almost always receive a 25-year tax abatement.

Two of the programs permit a public authority, in this case the St. Louis Development Corporation, to implement redevelopment or assist the private sector. The other program directly empowers the city to give private development corporations the right to use the power of eminent domain to acquire land for redevelopment. However, all three tax abatement programs provide that applications for

abatements must be approved by the city's Board of Aldermen on a case-by-case basis.⁹

GAO Property Abated in St. Louis in 1992

- \$145 million in assessed property value (both residential and business) or
- 5.6% of total city assessed property value

EXTENT OF PROPERTY ABATED IN ST. LOUIS

In 1992, St. Louis's real property, including exempt property, was assessed at about \$2.6 billion. About \$145 million, or 5.6 percent of this total, was tax-abated business and residential property.¹⁰

St. Louis assesses real property value for businesses at 32 percent and residents at 19 percent of full market value. We could not calculate the full market value of property abated because city officials did not know the percentage of business property as opposed to residential property receiving tax abatement. For full market values of other cities we visited, see appendix I.

⁹The Board of Aldermen is a board of elected municipal officers representing a certain district or ward in the city.

¹⁰The dollar amounts used in this section include business and residential property tax abatements.

**GAO 1992 Revenue Profile for
St. Louis School District**

**Property tax accounted for
25.5% of total school district
revenues.**

Revenue sources

- 45.3%—local
- 43.8%—state
- 10.9%—federal

**Property tax accounted for
56.3% of local sources.**

REVENUE PROFILE FOR ST. LOUIS SCHOOL DISTRICT

In 1992, property tax revenues accounted for approximately 56.3 percent of locally generated revenues and 25.5 percent of the school district's total revenues. The remaining 74.5 percent of the school district's total revenues came from sources, including other local revenue, from sales tax, delinquent taxes, surcharges, and other income (19.8 percent), state aid (43.8 percent), and federal assistance (10.9 percent). See appendix I for a comparison with other cities we visited.

GAO School Revenues Forgone in
St. Louis School District in 1992

- \$6.3 million in school property tax revenues (both business and residential) or
- 1.9% of total school district revenue

EXTENT OF ST. LOUIS SCHOOL DISTRICT
REVENUE FORGONE TO ABATEMENTS

We estimate that, in 1992, \$6.3 million in school property taxes were abated in St. Louis. We based this estimate on the St. Louis school district's levy of \$4.31 per \$100 in property value multiplied by the abated property value of \$145 million. Revenue forgone due to tax abatements was about 1.9 percent of St. Louis school district's total school district revenue of \$333 million in 1992.

GAO St. Louis School District's Revenue Problems

- State aid growth slower than expenditures
- Increase in nonprofit and government property exemptions
- Length of tax abatements
- Overuse of blight restrictions

ST. LOUIS SCHOOL DISTRICT'S REVENUE PROBLEMS

The St. Louis school district cited four primary revenue problems: (1) state aid growth slower than expenditures, (2) increase in nonprofit and government property exemptions, (3) the 25-year length of tax abatements, and (4) overuse of blight restrictions. According to school district officials, state aid increases have not kept pace with inflation. When adjusted to 1992 dollars, state aid declined 12 percent since 1989. During this period, expenditures rose at the rate of inflation or more.

Moreover, the school district believed that increases in nonprofit and government tax-exempt property hurt it financially. St. Louis has 65 tax-exempt hospitals. In addition, it has many nonprofit tax-exempt organizations such as the American Lung Association. Religious organizations are also causing some revenue problems for the school district because many once taxable commercial properties have been converted to tax-exempt religious uses. When taxable property is converted to entirely tax-exempt status, the school district loses a revenue source.

In addition, school district officials believe that the maximum length of 25 years for a tax abatement is too long. By the time the abatement expires, the once new buildings are older and have depreciated in value. This does not yield the school district

additional revenues in the long term. Moreover, school district officials believe that the aldermen overuse the blighting restriction in the tax abatement regulations. According to state law, a property must be declared blighted by the area's aldermen before a tax abatement can be granted for that property. However, according to a school district official, some aldermen have declared an area blighted when the school district believed it was not. The aldermen have the final decision on whether a site is blighted.

GAO Legal Actions Pursued by St. Louis School District

- Filed lawsuit against abatement for local hotel
- School district disagreed with city — believed renovation abatement really for maintenance
- Judge decided against school district — currently being appealed

LEGAL ACTION PURSUED BY ST. LOUIS SCHOOL DISTRICT

The St. Louis school district sued the city over the upcoming tax abatement for a local hotel. The hotel owners had originally received a full 25-year tax abatement when the hotel was constructed. When the abatement expired, the owners decided to renovate the hotel. School district officials believed the hotel should not have received another 25-year tax abatement because the improvements consisted of general maintenance (e.g., painting and carpeting). The school district lost the lawsuit because the judge ruled that the aldermen make the final decision on whether the tax abatement is appropriate. In May 1993, the school district filed an appeal with the Supreme Court of Missouri contesting the judge's ruling.

GAO Exempt Property
in St. Louis in 1992

- \$638 million in property value or
- 24.7% of total property value
- Includes hospitals, associations, churches, etc.

EXEMPT PROPERTY IN ST. LOUIS

About 24.7 percent, or \$638 million, of property value was tax exempt, in St. Louis, in 1992. These exempt properties included federal, state, and local government properties, educational entities, hospitals, and churches. For example, exempt property value of

- \$57.1 million was occupied by parks, playgrounds, and plazas;
- \$46.8 million was for hospitals and sanitariums;
- \$39.1 million was owned by the St. Louis Board of Education; and
- \$34.6 million was owned by the federal government.

**GAO Nature of Tax Abatements
in San Antonio**

Amount

- Up to 100%—based on capital cost of project improvement or number of new jobs

Length

- 6 to 10 years depending on location or total project cost

Who qualifies

- Targeted businesses
-

NATURE OF PROPERTY TAX ABATEMENTS IN SAN ANTONIO

Tax abatements offered in San Antonio are granted on a case-by-case basis in reinvestment zones. The percentage of property tax abated is based on one of two criteria, whichever is most appropriate: (1) the capital cost of the project improvement or (2) the number of new permanent jobs created and sustained in each year of the abatement. For example, the percentage of property tax abated is 50 percent when the capital cost of the project is more than \$1 million and less than \$2.75 million or the number of jobs created is between 26 and 65. (See table 1 for additional abatement amounts).

Table 1: Table of Abatement Percentages Applicable for Given Criteria

Project abatement (up to)	Capital cost of the project "improvements"	or	Number of new permanent jobs created and sustained in each year of abatements
0%	0 - \$1,000,00		0 - 25
50%	\$1,000,000 - \$2,750,000		26 - 65
75%	\$2,750,001 - \$4,500,000		66 - 100
100%	over \$4,500,000		over 100

Source: City of San Antonio Economic Development Department.

The abatement length ranges from 6 to 10 years depending on the project's location or total costs. The abatement length in San Antonio can be either 6, 8, or 10 years depending on the location of the project. If the project is located in the inner city of San Antonio in an enterprise zone area, the abatement length is 10 years. If it is located in the inner city but outside an enterprise zone, the length is 8 years. Projects located in the city but outside the inner city, have a 6-year abatement length.

San Antonio offers tax abatements to manufacturing/assembly facilities, biomedical/biotechnology facilities, regional distribution facilities, regional tourist entertainment facilities, downtown housing, aviation facilities, and exceptional investment facilities. A facility qualifies to be an exceptional investment if the it creates 200 or more new permanent full-time jobs or brings new investment of real property improvements of \$10 million or more into the community. Tax abatements may be granted for constructing new facilities and modernizing or expanding existing ones.

GAO Business Property Abated in
San Antonio in 1992

- \$94.6 million in assessed property value or
- 0.35% of total city assessed property value

EXTENT OF BUSINESS PROPERTY
ABATED IN SAN ANTONIO

In 1992, San Antonio's total property value, including exempt property, was \$26.7 billion. About \$94.6 million, or 0.35 percent, of this total was business property value exempt from property tax under the state's abatement program.

San Antonio assesses business property at a locally determined rate of 60 percent of market value. Business property under abatement in San Antonio had a full market value of about \$158 million. See appendix I for a comparison with other cities we visited.

GAO 1992 Revenue Profile for San Antonio School District

Property tax accounts for 25.7% of total school district revenues.

Revenue sources

- 29.0%—local
- 64.2%—state
- 6.8%—federal

Property tax accounts for 88.6% of local sources.

CITY OF SAN ANTONIO SCHOOL DISTRICTS

The City of San Antonio has 10 separate independent school districts. We visited the two school districts--San Antonio and Northside--that encompassed most of the tax abatements granted by the City of San Antonio.

REVENUE PROFILE FOR SAN ANTONIO SCHOOL DISTRICT

In fiscal year 1992, property tax revenues represented 88.6 percent of the San Antonio school district's locally generated revenues. However, property tax provided only 25.7 percent of the district's total revenues in 1992. Most of the district's revenue, (74.3 percent) came from sources, including other local revenue from tuition and special projects (3.3 percent), state aid (64.2 percent), and federal assistance (6.8 percent). See appendix I for a comparison with other cities we visited.

GAO 1992 Revenue Profile for
Northside School Districts

Property tax accounts for
34.1% of total school district
revenues.

Revenue sources

- 46.5%—local
- 50.0%—state
- 3.5%—federal

Property tax accounts for
73.3% of local sources.

REVENUE PROFILE FOR NORTHSIDE
SCHOOL DISTRICT

Property tax represented 73.3 percent of Northside School District's local revenues and 34.1 percent of the district's total revenues in 1992. The remaining 65.9 percent of total district revenues came from sources, including other local revenue from tuition and special projects (12.4 percent), state aid (50 percent), and federal assistance (3.5 percent). See appendix I for a comparison with other cities we visited.

**GAO School Revenue Forgone in Two
San Antonio School Districts**

San Antonio School District

- \$307 thousand in school property tax revenues or
- 0.11% of total school district revenue

Northside School District

- \$1 million in school property tax revenues or
 - 0.54% of total school district revenue
-

EXTENT OF SAN ANTONIO AND NORTHSIDE
SCHOOL DISTRICTS' REVENUE FORGONE TO
ABATEMENTS

San Antonio school districts may choose not to participate in tax abatements on a case-by-case basis. School district officials are included in all tax abatement negotiations that are requested in their jurisdiction. City, county, community college, and school district officials agree to the terms before the granting of an abatement. As of July 1993, the two school districts we visited had participated in all tax abatements granted in their jurisdictions.

San Antonio School District

Property tax abatements in the San Antonio School District represented about \$307,000 in 1992 property tax revenues forgone. This equaled about 0.11 percent of the school district's total school revenue for 1992. San Antonio School District's average tax levy for 1992 was 51.83 mills, and abated business property value totaled \$59 million.

According to school district officials, the benefits of abatements to the school district outweigh the lost revenue. They said benefits were gained by the overall community because developers

receiving tax abatements must purchase supplies from local businesses and employ local residents.

Northside School District

Property tax abatements in Northside School District totaled about \$1 million in 1992 property tax revenues forgone. This represented about 0.54 percent of the school district's total school revenue for 1992. Northside School District's tax levy for 1992 was \$0.4991 per \$100 in property value with \$208 million in abated business property value.¹¹

Although Northside School District abated \$1 million in property tax revenue in 1990, the school district gained \$694,000 in revenues from the abated projects. In Texas, agricultural land is assessed and taxed at a much lower rate than developed property. Any developer that converts agricultural land to developed property must pay a rollback recovery amount to the schools. The recovery amount is equal to 5 years of back taxes at the higher tax rate for developed property. Therefore, any development, including tax-abated property, must pay 5 years of taxes in arrears to the school district and continue to pay at the higher rate for the life of the development. Only the increased value due to property improvements and the introduction of personal property is eligible for abatement.

The school district also gained through expansion of other businesses and infrastructure that were ancillary to the abated business, according to school district officials. The district gained more than \$5.7 million in taxable property value due to the construction of restaurants and recreational facilities near two major amusement parks--Sea World and Fiesta Texas Theme Park--that received an abatement. In addition, due to the construction of Sea World, the school district also gained a major interstate highway connecting the northern portion of San Antonio with the city's other major interstates.

School district officials were highly supportive of property tax abatements in their jurisdiction. They believed that these projects would not have occurred in their school district without the abatements. For example, school district officials reported that Sea World originally planned to locate on the east side of San

¹¹Northside's school board determines its tax rate annually based on revenue needs. The 1992 tax rate was the lowest in 10 years, and the 1993 tax rate of \$1.49 per \$100 in property value was the highest. Using a 10-year average tax rate of \$0.84, Northside School District's forgone property tax revenue averaged about \$1.7 million in 1992 or about 0.9 percent of total school district revenue.

Antonio in another school district. Northside School District officials believed that having Sea World in their district would benefit their schools through increased revenue. Officials encouraged Sea World, through the use of tax abatements, to locate within Northside School District.

GAO San Antonio School Districts' Revenue Problems

San Antonio School District

- Limited state aid funding
- New state aid formula
- Landlocked community

Northside School District

- Unfunded federal and state mandates
 - Growth in student enrollment
 - New state aid formula
-

SAN ANTONIO SCHOOL DISTRICTS' REVENUE PROBLEMS

San Antonio School District

Revenue problems for the San Antonio School District include (1) limited state funding, (2) the new state aid formula, and (3) the landlocked community in which the school district resides. Officials from the San Antonio School District stated that the amount of state funding that their school district currently receives is not enough to properly fund the educational needs of students in the district. In addition to the already limited state funding, the new state aid formula will actually reduce the current level of state aid funding in the school district. The new formula, which became effective September 1, 1993, includes the value of abated property in the community's relative wealth measure. This measure, used by state officials to calculate state aid, determines the amount of funding the school district can generate through property tax revenues. The new formula will

include the value of abated property in the school district's relative wealth measure even though the property value is not being taxed. This will result in less state aid for the school district. School district officials believed that this new formula is incongruous with the state's desire for economic development of blighted areas.

Finally, the inner city geography of San Antonio creates another revenue problem. Business growth is important to the vitality of the inner city school district, according to school district officials. It is difficult to attract new business to the school district's jurisdiction because the portion of the city in which the San Antonio School District is located has little open space and vacant land. New construction would have to involve demolition or rehabilitation of existing buildings. School district officials reported that these factors make it difficult to attract new business to the district. They believed that offering financial incentives like tax abatements is often necessary for the economic stability of the district.

Northside School District

Unfunded federal and state mandates, growth in student enrollment, and the new state aid formula generated most of Northside School District's revenue problems, according to school district officials. Mandates such as the Americans With Disabilities Act and the state's increased teacher-to-pupil ratio requirement are some examples that Northside School District officials provided of unfunded mandates that are placing a financial strain on the school district. School district officials said that they need more money and time to carry out the mandates. Officials also reported that money devoted to carrying out mandates takes funds away from basic education such as hiring more teachers and purchasing textbooks.

Student enrollment grew rapidly in Northside School District in the past decade, but state aid did not keep up. Student enrollment grew from 34,265 in 1983 to 51,134 in 1992, a 49-percent increase. State revenues in the form of state aid, however, increased only about 35 percent during the same period. According to school district officials, the growth was not due to tax abatements. The northern area of San Antonio where Northside School District is located has become a popular residential community for young families with children. Many of the residents do not work in the district but commute to other areas of San Antonio, according to school district officials.

The new state aid formula is also a revenue problem for the Northside School District. As with the San Antonio School District, the new state aid formula now includes tax-abated property in the school district's available local revenue. Northside School District officials estimate that the new formula

will cost the district \$5.2 million if all the abatements currently in effect in Northside School District are considered part of the district's available local revenue. School district officials informed us that they may be reluctant to grant abatements in the future if the amount of state aid forgone is greater than the economic benefits of granting an abatement.

GAO Exempt Property in San Antonio in 1992

- \$2.3 billion in property value or
- 8.5% of total assessed property value
- Includes senior citizen, veterans, and historical site exemptions

EXEMPT PROPERTY IN SAN ANTONIO

About 8.5 percent, or \$2.3 billion, of property value was exempt from property taxes in San Antonio during 1992. These exempt properties included exemptions for persons over age 65 and disabled veterans, free trade zones, historical entities, and transitional housing. For example, exempt property value of

- \$2.0 billion was owned by senior citizens,
- \$17 million was owned by disabled veterans,
- \$157 million was classified as free trade zones,
- \$46 million was occupied by historical entities, and
- \$197 thousand was for transitional housing for the indigent.

PROPERTY TAX ABATEMENT STATISTICS BY CITY FOR 1992

	Cleveland	Philadelphia	St. Louis	San Antonio SAISD ^d NSISD ^e	
Maximum amount of property tax abated	100%	100%	100%	100%	
Maximum length of abatement	20 years	3 years	25 years	10 years	
Types of business that qualify	all	all	all	targeted businesses	
Total school revenue abated by businesses	\$5.5 million	\$19.8 ¹ million	\$6.2 ^d million	\$307,000	\$1.0 million
Abatements as a percentage of all school revenue	1.2%	1.7%	1.9%	.11%	.54%
Total business property value under abatement	\$149 million	\$437 ^b million	\$145 ^b million	\$94.6 million	
Business property as a percent of all property value in state (assessed)	3%	3.4%	5.6%	0.35%	
Total residential property value under abatement	\$3.4 million	\$19 ^c million	N/A	\$0.0	
Federal government exempt property value	\$37.1 million	\$253.0 million	\$34.6 million	N/A	
Other exempt property value	\$1.3 billion	\$2.9 billion	\$638 million	\$2.3 billion	
Property assessment rate for business property	35% real	32%	32% real	60%	
Property assessment rate for residential property	35% real	32%	19%	60%	
Dollar amount of abated property at market value	\$424.6 million	\$1.4 billion	N/A	\$158 million	

	Cleveland	Philadelphia	St. Louis	San Antonio	
				SAISD ^d	NSISD ^e
Schools receive payment in lieu of taxes	some	no	no	no	some
State protects schools from business property tax abatements	no	yes	no	Yes- at school district's option	Yes- at school district's option
Percent of all school funding from local property tax	37 ^a	34.8 ^b	25.5%	25.7%	34.1%
Percent of all school funding from other local taxes	2.7 ^a	12 ^b	19.8%	3.3%	12.4%
Percent of all school funding provided by state	51.0 ^a	53 ^b	43.8%	64.2%	50%
Percent of all school funding provided by federal government	9.4 ^a	0.1 ^b	10.9%	6.8%	3.5%

^aIncludes residential revenue abated because the city was unable to provide separate numbers for business and residential property abated.

^bIncludes residential property abated.

^cExcludes some residential exempt property because the city was unable to provide separate numbers for one abatement program that consists of both business and residential abated property.

^dSan Antonio Independent School District.

^eNorthside Independent School District.

^fHowever, Philadelphia School District is dependent on the city for its funding. If the city participates, then the school district automatically participates.

^gDo not total 100% due to rounding.

^hDo not total 100% due to rounding.

N/A=Data not available.

