January 28, 2015

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Project No. 19-20E

Emailed to: director@gasb.org

Dear Director:

The Philadelphia Federation of Teachers hereby submits comments in response to the Governmental Accounting Standards Board’s exposure draft of accounting standards for tax abatement disclosures (Project No. 19-20E).

The PFT represents more than 16,000 teachers, librarians, school nurses, counselors, psychologists and social workers, secretaries, paraprofessionals, classroom assistants, nonteaching assistants, supportive services assistants, Head Start/Comprehensive Early Learning Center and Bright Futures teachers and staff, food service managers, and professional and technical employees. The PFT’s core mission is to provide classroom environments that are healthy and productive for children and teachers. A necessary part of this mission is advocating for transparent, accountable and sustainable funding for our city’s public schools.

PFT members and staff are frequent users of financial reports that conform to GASB standards. Our work negotiating a collective bargaining agreement on behalf of our members requires a deep understanding of the fiscal health of the school district. GASB’s proposed rule will provide much-needed transparency on how the city’s tax abatements affect the school district’s budget.

Nowhere is this type of disclosure needed more than in Philadelphia. The city currently offers a 10-year property tax exemption on new construction or renovations. This tax abatement system is among the most generous in the nation, while the city’s school system is currently undergoing a financial crisis. While the primary cause of the fiscal crisis is an inadequate state funding formula, the city’s opaque use of tax abatements also costs schools much-needed revenue and, in an alarming number of cases, distributes it to already-wealthy developers. A report by the Philadelphia Coalition Advocating for Public Schools (PCAPS)—a coalition of students, parents and teachers of which the PFT is a member—estimates that the city’s schools lost nearly $50 million to abatements in 2014, with only 20 buildings accounting for almost $15 million of that lost revenue. Many of
these buildings are clustered in some of the wealthiest neighborhoods in the city. According to the school district’ 2013 Comprehensive Annual Financial Report (CAFR), the school district collected $650 million in property tax revenue, with the notes section on “Real Estate Taxes” only providing that the reported amount complies with GASB Statement No. 33. We look forward to the day when abatement revenue losses are appropriately accounted for in school districts’ CAFRs.

The proposed rule also rightly recognizes that tax abatements have intergovernmental impacts. The tax abatement system in Philadelphia is administered by the city but, as the PCAPS report demonstrates, has a profound impact, in turn, on the school district.

While GASB’s proposed rule would provide welcome transparency on the city’s system of abatements, we encourage the GASB to refine the exposure draft. For example, the city actually offers three separate but similar types of 10-year property tax abatements. Under the GASB’s proposed rule, the revenue lost to all of these programs would be reported as one aggregate number. A more useful rule would require revenue losses to be disaggregated by program, so CAFR users could see which type of tax abatement is costing the school district the most. And given how very concentrated we know tax abatement spending is in a small number of projects, it would be more useful to have taxpayer-specific abatement disclosure.

Also, GASB’s draft standard would only require a single year of lost revenue to be reported. In Philadelphia, the tax abatement system has a long-term impact on the school district’s budget. Each abatement has a 10-year life span, with new abatements approved every year and others expiring. In order for the school district and interested parties to accurately plan and budget, we need a comprehensive accounting of the long-term cost of these tax abatements.

Finally, we endorse the comment of our national affiliate, the American Federation of Teachers, that the GASB’s final standard should cover all forms of economic development tax abatement spending, including tax diversions as well as tax reductions.

Thank you for the opportunity to comment on these important issues.

Sincerely,

JERRY T. JORDAN
President

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1 http://warepcaps.files.wordpress.com/2013/10/pcaps-paper-abatementsfinal.pdf
2 www.phila.k12.pa.us/offices/cbo/docs/cafr_2013.pdf