December 4, 2014

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

Re: Project No. 19-20E

We are writing in connection with GASB’s draft standard on tax abatement disclosure. We are affiliated with non-profit research and advocacy organizations in Nevada and New Mexico that work frequently on economic development issues. As part of our work, we often make use of government financial reporting documents at the state and local levels.

We strongly endorse the proposal to require reporting on tax abatements costs by government entities. This is a long overdue reform that will make it much easier for groups such as ours to analyze the fiscal condition of government entities.

While we commend GASB for the initiative, we believe there are ways that the draft standard could be improved. One key issue has to do with the level of detail that government bodies would be required to provide on their abatement costs.

Section B24 of your draft standard notes that data users consulted during the preparation of the document “rated the name of the tax abatement recipient as important information.” Yet the Board concluded that such information does not fulfill the objectives of financial reporting.

While aggregate figures on abatement costs are essential, breakdowns by recipient are also important for understanding the full fiscal condition of a jurisdiction. This is especially true when a large portion of the abatements have been granted to a single or small number of recipients.

Our organizations each face such situations in our respective states. In Nevada, Tesla Motors was recently awarded a $1.4 billion package that far surpasses any other incentive deal in the state’s history. The costs to state and local entities will extend far into the future. While the existence of the package and the total costs estimates have been widely reported in the media, it is unclear to what extent future government annual financial reports will contain details on fiscal impacts as time goes by. The package, 14 times the size of any corporate subsidy in Nevada history, was passed unanimously in a rushed session of only 48 hours.

In New Mexico, large incentive packages have been awarded to Intel for its chip fabrication operations in Rio Rancho, a suburb of Albuquerque. These subsidies are particularly difficult to
analyze because they are structured in the form of property tax abatements enabled by taxable industrial revenue bonds. There is currently no detailed reporting on the fiscal impact of Intel’s deals, whose costs are thought to amount to billions of dollars.

In addition, in 2013 the New Mexico State Legislature passed a last minute $240 million corporate tax cut package that include a high-tech manufacturing tax incentive for Intel and within a few months, Intel announced that it was cutting 400 local jobs in Rio Rancho. SWOP had a similar experience with Phillips Semiconductor, a company that was awarded a $400 million Industrial Revenue Bond in 2003 and then relocated to New York State, taking 700 jobs with it. At SWOP’s urging, local government entities sued and were awarded a significant portion of the tax giveaways. Soon thereafter, the City of Albuquerque also implemented “clawbacks” in its Industrial Revenue Bond policy.

Economic and fiscal conditions in Storey County, Nevada and the Albuquerque Metro Area in New Mexico are now highly dependent on what happens with highly subsidized individual companies. It is only logical that their government financial statements should report on the condition of those deals.

This situation can be found in many other places around the country that have granted large, multi-year incentive packages to specific companies. Detailed recipient-specific reporting should thus be the norm everywhere.

We urge the Board to reconsider its position on the inclusion of recipient details in the draft standard. When governments devote large portions of their economic development resources to a few companies, the details of those deals become an essential element of reporting for the jurisdiction as a whole.

Thank you for your consideration of these comments.

Sincerely,

R. Fulkerson
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State Director
Progressive Leadership Alliance of Nevada (PLAN)
Javier Benavidez  
Executive Director  
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