December 29, 2014

Sent via email to: director@gasb.org

RE: Project No. 19-20E

Mr. David R. Bean, CPA
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

Please accept these comments on GASB’s Exposure Draft on Tax Abatements.

Policy Matters Ohio is a 501(c)(3) nonprofit, nonpartisan state policy research institute with the mission of creating a more vibrant, equitable, sustainable and inclusive Ohio. We have issued numerous studies and opinion articles on, and testified about, the state’s economic development programs and expenditures. Much of this work is available on our web site at www.policymattersohio.org. Over the last three administrations, we have sought to make Ohio’s economic development spending more accountable and transparent. Unfortunately, in significant ways, it has become less so, a tragedy given that Ohio pioneered online incentive disclosure—in 1999.

Policy Matters Ohio strongly supports GASB’s effort to add standards for tax abatement disclosures. This is badly needed. Tax abatements are widespread in Ohio and their role in government finance needs to be more transparent. This is evident from a study the State of Ohio released in 2009 on economic development incentives. It stated in part:

“Ohio’s first tax abatement statute (Section 1728: Impacted Cities) was designed as a tool targeted exclusively at blighted inner-city areas. Over the years, Ohio has added and amended tax abatement on an ad hoc basis. The number and types of tax abatement programs and amended tax abatement programs have proliferated.
The result is that virtually every corner of the state and every type of project is now eligible for abatement.”
(See https://www.cdfa.net/cdfa/cdfaweb.nsf/ord/0a0aefbda0a26bdd8825793600678216/$file/ohioincentivestudy.pdf, page 38)

We agree with the proposed requirement that the financial reporting standard include tax abatement agreements entered into by other governments that reduce the reporting government’s tax revenues. This is a crucial element of the proposal that needs to be maintained and, if possible, strengthened. The 2009 state study mentioned above estimated that school districts in only 10 of Ohio’s 88 counties would forgo a total of $2.2 billion in tax revenue over the lifetime of tax abatement (Ohio’s use of the term, not GASB’s) and tax increment financing property exemptions (see page 39 of the study). This included $817 million in Hamilton County (Cincinnati) alone, or 31.55 percent of the state total, when the county accounts for just 7 percent of Ohio’s population. The vast bulk of this – $709 million – was from tax increment financing. Yet approval of these tax expenditures is through the municipality or township, not the school district.

These are extraordinary numbers, illustrating the need for schools to report the abatements affecting them that local governments approve. But they also indicate that a finer breakdown should also be required. While TIFs accounted for 87 percent of the tax revenue losses in Hamilton County, they accounted for just 40 percent in Cuyahoga County (Cleveland), where other varieties of abatements made up the rest. As the proposed rules do for the grantors of abatements, they also ought to require that bodies of government losing revenue passively also break out the types of abatement by program and by each granting government. As the numbers in the incentive study indicate, the possible revenue losses are so significant such reporting should be required.

We also recommend that you should seriously consider requiring the disclosure of tax abatements by specific recipients, at least of abatements over a threshold size. In Appendix B of the proposed rules, Section B15, you state: “Whereas a government could individually disclose information about, for example 5 or 10 tax abatement agreements, individual disclosure of 100 agreements might be overwhelming.” We respectfully disagree: If a government has taken the care to prepare an agreement with a company, including the necessary approval, documentation, and legal compliance requirements, including a line of key data about it in a spreadsheet does not constitute a significant burden.

Here is an example of why this is important in fully understanding the finances of local governments: The City of Cincinnati granted major tax abatements to Convergys Corp. to locate its headquarters in the downtown of that city. Unfortunately, the company did not make good on the employment it had promised. Cincinnati Mayor John Cranley noted in his Fiscal Year 2015 budget message that in 2012, “the city’s budget only was balanced by accepting a $14 million settlement from Convergys in return for allowing it to reduce the number of employees it promised to keep at its downtown location.” (See http://www.cincinnati-oh.gov/finance/linkservid/CD982B78-B98A-6010-DDC7D383F0A8DDF8/showMeta/0/).
In other words, the City of Cincinnati, the third-largest in Ohio and home to some of the nation’s largest corporations, such as Procter & Gamble and Macy’s, was only able to balance its budget because of the settlement of a single abatement agreement. This shows that understanding our communities’ finances depends on knowing the value of the largest individual abatements and what would be available if their terms are not met. This does not necessarily suggest disclosure of every single abatement, but at least those over a threshold amount, which could vary by size of community.

As Ohio numbers cited above illustrate, it is important that tax increment financing as a form of abatement is included among those that are covered under the GASB rules. The Ohio Department of Taxation publishes figures on the assessed value of real property exempted under each of the major types of tax abatement program in the state. As of 2012, the most recent data available (see PE3 in http://www.tax.ohio.gov/tax_analysis/tax_data_series/publications_tds_property.aspx#Realpropertyonly), TIFs are now the largest, and nearly doubled between 2006 and 2012, to $4.36 billion. These amounts are concentrated: Franklin County (Columbus) and Hamilton County accounted for $1.5 billion and $1.34 billion, respectively. There has also been substantial growth in some jurisdictions: Butler County, north of Cincinnati, saw the amount exempted grow from $11.9 million in 2006 to $594 million in 2012. This represents 8.5 percent of the total assessed value of taxable real property in the county. In Franklin County, where the value of TIF property also grew dramatically, the total value of property exempt under all types of tax abatement was almost $2.3 billion, amounting to 9 percent of the assessed value of taxable real property in the county in 2012. This contributed significantly to the total of exempt property in the county, which, combined with tax-exempt government and charitable institutions, amounts to nearly a quarter of the real property tax base.

Clearly, this level of exempt property has a meaningful effect on the tax capacity of schools and local governments and their financial stability. Statewide in 2012, tax abatements covered real property assessed at $9.2 billion, making them the largest single category of exempt real property. Reporting by each jurisdiction on the level of TIF and other real property tax abatements would add importantly to an understanding of their tax capacity and fiscal condition. However, it would be even more so if each jurisdiction reported these TIFs and other abatements individually. This would not pose an undue burden, as many abatements are already reported to local Tax Incentive Review Councils in Ohio.

Tax incentive financing meets all the GASB definitions for tax abatements: There is a government-taxpayer agreement, there is a loss of government revenue for which the taxpayer(s) otherwise would have been obligated, and the taxpayer promises a specific action that contributes to economic development. In Ohio, revenue from TIFs may be used to service private activity debt. This means tax revenue is paying for private mortgages, reducing a cost for the taxpayer. This further underlines that TIFs should be included within the tax abatements that are covered by the reporting requirements.

It is also important that the GASB requirement include the known future costs of tax abatement agreements to enable credit analysis and financial planning based on a full accounting of fiscal
capacity. This is not difficult; for instance, it has been existing practice for the State of Ohio to estimate the value of individual Job Creation Tax Credits, a type of tax abatement that is one of the state’s leading economic development incentives and can last up to 15 years. In 2013, when the Ohio Development Services Agency made known that it was no longer going to release these estimates because it believed they were protected trade secrets, Governor John Kasich disagreed and said the change “doesn’t sit well with me.” The agency then continued its existing practice of releasing such estimates. This long-standing practice illustrates that including the value of future abatements is feasible.

We commend GASB for your efforts to improve accounting practices covering tax abatements. The improved data that will be available because of your final standard will be useful to Policy Matters Ohio, bond investors, local governments and citizens alike. Thank you for the opportunity to submit comments on this matter.

Sincerely,

Zach Schiller
Research director