January 22, 2015

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

Re: Project No. 19-20E

Thank you for the opportunity to comment on the Governmental Accounting Standards Board’s (“Board”) Exposure Draft of the proposed Statement regarding Tax Abatement Disclosures (“Statement”). Overall, I agree with the Board that proper disclosure of tax abatements will enable financial statement users to better evaluate the impacts of these agreements on a government’s financial condition, and my office welcomes these additional requirements. In an effort to further increase transparency and utility for users without materially increasing the reporting burden for governments, we respectfully submit the following requested modifications to the Statement. Specific suggested additional language is indicated with underline.

1. Modify paragraph 6(a)(5) to inform financial statement users of the full amount of abated taxes that are subject to recapture.

   (5) Provisions for recapturing abated taxes, if any, including the conditions under which abated taxes become eligible for recapture and the total dollar amount of abated taxes that were subject to recapture in the reporting period

We agree that disclosure regarding recapture is “highly relevant” to interperiod equity and the financial and economic condition of a government. (Paragraph B36) While the Statement requires disclosure of circumstances that could lead to recapture, it does not require disclosing quantitative information regarding abated taxes subject to recapture because government revenues and receivables would recognize amounts that were recaptured or that became eligible for recapture, respectively. (Paragraph B37)

While we appreciate the rationale for not disclosing amounts already recognized as revenue or receivables, we are concerned that disclosing only qualitative information about recapture provisions without quantitative information has the potential to mislead users. Users of a financial statement that aggregates a large number of tax abatements under a single program likely would infer that recapture provisions disclosed in connection with the program apply to most of the recipients or the abated taxes when perhaps only a small fraction is subject to the provisions. Disclosing the dollar amount that is subject to recapture would enable users to compare such amount with the dollar amount of reduced taxes for the program. This incremental information would allow the user to better evaluate the materiality of recapture.
provisions in assessing the interperiod equity and the financial and economic condition of the government. An alternative approach to address the concern of misleading users regarding materiality would be to modify paragraph 6(a)(5) to require disclosure of provisions for "recapturing, in the aggregate, no less than half of the abated taxes, if any, ...."

2. **Modify paragraphs 6(b) and 6(c) to enable financial statement users to determine the change in the number of tax agreements and the change in tax revenue reduction.**

   a. The number of tax abatement agreements entered into during the reporting period and the total number of tax abatement agreements in effect as of the end of the reporting period and the end of the prior two reporting periods
   
   b. The dollar amount by which the reporting government’s tax revenues were reduced during the reporting period and during the prior two reporting periods as a result of tax abatement agreements

We agree that the amount of reduction in tax revenues for the reporting period and future years is "highly valuable" to financial statement users. (Paragraph B25) While information regarding amounts to be abated in future years "would be particularly relevant to assessments of economic condition," we acknowledge that scope limitations, namely the need to develop specific measurement guidance, underlie the decision not to require such a disclosure. (Paragraph B26)

We believe the above suggested changes to paragraphs 6(b) and 6(c) would serve a similar function to disclosure of future abatement amounts, thus enabling financial statement users to assess whether there is likely to be a material change in the impact of tax abatements on the reporting government’s economic condition. Knowing whether, due to actions by the reporting government or another government, the number or impact of tax abatements has changed significantly over a three-year period enables users to make more informed decisions whether to inquire further into the impact of tax abatements on economic condition.

3. **Modify paragraph 6(c) to clarify that the disclosure of the amount of tax revenue reduction is net of any offsetting payments.**

   c. The net dollar amount by which the reporting government’s tax revenues were reduced ...

In Example 2 of Appendix C, Model County discloses that state tax abatements reduced County property tax revenues by $8.3 million and that the state reimburses the County for one-third of the reduction in tax revenues. Users cannot assess the financial impact of the tax abatement on the County with this disclosure without also knowing whether the disclosed amount is net of the state reimbursement. If the disclosed amount is a net number, the financial impact to the County is $8.3 million, but if the disclosed amount is a gross number, then the financial impact is $5.6 million. Because financial statement users cannot assess the impact of a reduction in tax revenues without knowing whether the impact of that reduction is offset in whole or in part by other revenues that the County received solely as a result of granting the tax abatements, governments should be required to disclose net reductions in tax revenues.
As with the implementation costs for the Statement identified by the Board, we believe the costs associated with the above suggested changes will be limited to the initial period of implementation and are outweighed by the expected benefits of these changes. On behalf of all of us in my office who reviewed the Statement, we appreciate the opportunity to participate in the standard-setting process regarding Tax Abatement Disclosures, and we hope you find our suggestions helpful. Please do not hesitate to contact me with any questions you may have regarding the above comments.

Sincerely,

[Signature]

Joseph Mark Campbell
Chief Financial Officer