January 26, 2015

Director
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Project No. 19-20E

Sent via email to: director@gasb.org

Dear GASB Director:

I write to comment upon GASB’s Exposure Draft on Tax Abatement Disclosures. I congratulate the Board for taking on this issue and hope I can convince you to improve your draft based upon our experiences with economic development tax expenditures in California.

By way of background, I served as the elected State Treasurer of California from 1999 to 2007, during which time I was on the board of the California Infrastructure and Economic Development Bank as well as other state agencies engaged in economic development and public financing activities. In 2009, I was named by the U.S. Congress to chair the Financial Crisis Inquiry Commission, the nation’s official inquiry into the causes of the financial crisis that so badly damaged our economy. Our 2011 report on the crisis was a best-selling book and has been called the definitive history of the crisis. I am currently in the private sector, focusing on building clean energy and urban mixed-use projects. Over the course of my career in both the public and private sectors, I have observed the various effects of economic development tax expenditures.

Your effort to make these tax expenditures more transparent is especially critical in states such as California where state and local revenues and taxes are constrained by constitutional limitations. While the merits of such measures can be debated, it is well established that in California such measures have caused distortions in local government behavior, especially when it comes to the chase for sales tax receipts, and that costly economic development tax expenditures have figured prominently in those distortions.

Particularly for that reason, I would urge the GASB to explicitly amend its definition of “tax abatement” to include not only tax reductions but also economic development-purposed tax diversions such as tax increment financing, or TIF (formerly used by Redevelopment Agencies, or RDAs, here). Before RDAs in California were eliminated as part of the 2011 budget-balancing actions, they were diverting $5.2 billion per year (12 percent of total property taxes, more than...
25 percent in some counties), making TIF the largest economic development tax expenditure here by far. They were also creating state spending obligations to offset the loss of revenues to K-14 education, which obligations were estimated by the Legislative Analyst’s Office at more than $2 billion annually.

As research by groups such as the Public Policy Institute of California established, those TIF redevelopment dollars were often used by local governments to attract larger retail establishments, such as big box stores, that enabled local governments to capture sales tax revenue at the expense of other jurisdictions, causing economic dislocation and, in some instances, detrimental retail over-building.

TIF has since been reenacted in California with narrower applications. However, our state’s history makes it clear that any effort by the GASB to accurately capture economic development tax expenditures would be egregiously incomplete if it omitted tax diversions such as TIF.

I would also recommend to the GASB that the tax abatement disclosures standard call for the reporting of future-year tax expenditure obligations. The temporal durations of TIF districts are known when they are established. And at the state level, the future-year costs of programs such as the enterprise zone program (which was substantially reformed as its annual cost surged toward a projected $1 billion) are also known. As well, California has recently granted two unusually large aerospace tax-subsidy agreements, each worth more than $420 million, to Lockheed Martin and Northrop Grumman. Such programs and financial agreements have long-term budget implications, particularly so as the state approaches a debate over whether to extend temporary income and sales tax increases.

Finally, as a former ex-officio board member of both the California Public Employees’ Retirement System and the California State Teachers Retirement System, I would point out that requiring future-year reporting of economic development tax expenditures is consistent with the GASB’s recently adopted standards on the reporting of public employee pension and health care obligations.

Thank you for consideration of my comments.

Sincerely,

Phil Angelides
California State Treasurer (1999-2007)
Chairman, Financial Crisis Inquiry Commission (2009-2011)