January 30, 2015

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

RE: Exposure Draft on Tax Abatement Disclosures  
Project No. 19-20E

Dear GASB Director:

In the Public Interest is a non-profit non-partisan resource center that examines government contracting, primarily on the state and local levels. Our mission includes advocating for transparency in all agreements between governmental entities and companies, including contracts, public-private partnerships, and subsidy programs. We strongly support the GASB’s Exposure Draft on Tax Abatement Disclosures and your effort to make economic development tax expenditures more transparent. We have several recommendations on how to make these standards even stronger and ensure that policymakers and the public have a fuller picture of how public funds are being spent.

First, we recommend that the GASB standard require recipient-specific disclosures of tax abatements. Knowing who received these public funds is a vital piece of information in evaluating the effectiveness of the tax abatement. This provides context that the dollar amount alone can’t provide. Which types of companies receive the most funds? Is it a small number of companies that receive most of the funds or is it distributed among a large number of companies? These are important questions. Policymakers who oversee economic development programs along with the public who want to understand how public funds are being used will greatly benefit from deal-specific recipient-specific disclosure.

Second, we recommended an accounting of future tax abatement spending obligations, not just a report on the past year’s activity. Without understanding how tax abatement will affect future revenue, budget planning is hampered. Many of these tax abatements span over many years, and have real financial impact on future budgets. We do a great deal of work on public-private partnerships to rebuild American infrastructure. This is a rapidly changing field and financing arrangements are evolving in a way that shifts more long term obligations on to the public agency. For example, availability payments are
increasingly used to guarantee payments to private operators of public infrastructure. We fully expect that the public agencies will use a variety of tools to reduce risk for private investors. Tax abatements will certainly be in that toolkit. These are long-term liabilities that affect the government’s ability to meet financial obligations and that policymakers and the public should be able to take into consideration in their financial planning.

Lastly, the definition of tax abatement is narrow, and by requiring that it involve a tax reduction, the term misses many major economic development tax expenditures that take the form of tax diversions. These include tax increment financing, personal income tax diversions, and sales tax diversions. The definition of tax abatement should encompass all of these tax expenditures, which otherwise meet all of the abatement criteria. Tax increment financing, and other instruments will certainly be included as part of tax abatement and benefit packages used to offset risk for private operators of infrastructure. As currently written, the term tax abatement would not include tax increment financing. Public-private partnerships are very long-term contracts and ongoing disclosure of the abatements and impacts of these public investments should be included in your definition.

Again, we applaud GASB in its efforts to bring greater transparency to tax abatement programs. We hope that our comments are helpful in strengthening these standards and appreciate the opportunity to comment on this issue.

Sincerely,

Donald Cohen

Executive Director
In the Public Interest