January 30, 2015

Dear GASB Director:

The Communications Workers of America (CWA) New Jersey represents more than 70,000 working families in New Jersey, including more than 40,000 state workers, 15,000 county and municipal workers, and thousands of workers in the telecommunications and direct care industries.

CWA New Jersey is writing in support of GASB’s Exposure Draft on Tax Abatements. We believe that the new disclosures will be very helpful to the general public in understanding the breadth and depth of tax abatement programs, and the overall fiscal health of government entities.

However, while we commend GASB for the initiative, we believe there are ways that the draft standard could be improved. Specifically:

- Names of individuals receiving the tax abatements, and their specific amounts, should be disclosed.
- Future year liabilities should be disclosed.
- Tax increment financing (TIF) should be included.

Tax Abatement Disclosures Will Be Helpful in New Jersey

The new tax abatement disclosures will be very helpful in the state of New Jersey specifically, which has recently seen a large increase in these programs. For example, the state of New Jersey awarded over $4 billion in corporate tax breaks since 2010. This represents a huge increase in these programs in just four years; in contrast, through the entire decade of the 2000s, $1.2 billion was awarded through these programs.1
Also, in 2013, Economic Opportunity Act (EOA) significantly expanded these programs. To the extent that these tax subsidy programs are disclosed publicly, taxpayers and policymakers will be better equipped to fully assess their overall value to the state.

**However, the Proposed Standards Do Not Go Far Enough**

While the new disclosures are welcome, we believe that they could be stronger in three key ways:

1. *Names of Individuals and Companies Receiving Tax Abatements, and Their Specific Amounts, Should Be Disclosed*

First, names of individuals and companies receiving the tax abatements, and the specific amounts received, should be disclosed. A small number of individual deals—especially if they are large—can have a sizeable impact on a local government's finances.

In New Jersey, not only has the total amount of subsidies increased dramatically in recent years, but so have the amounts granted to individual companies. Of the largest ten subsidies ever granted by the state, eight of them have been awarded since 2010, and the top five were worth between $211 and $390 million. Meanwhile, the total number of companies who are granted these awards is low. All of the awards since 2010, for example, have gone to just 252 companies—out of approximately 200,000 total companies within the state.

Thus, it would not represent a significant burden on the state to disclose each individual grant. Yet at the same time, such disclosures would provide important information to taxpayers and policymakers.

Indeed, many of the awards go to companies that are already extremely profitable, while paying little or no taxes. For example, Verizon, a company that made $9.6 billion in net profit last year and paid a net negative income tax, received $87.8 million in 2005.

Other subsidies given in New Jersey are questionable in that no new jobs are actually created, as is generally the goal, but rather, just shifted. For example, Panasonic was given $102.4 million in 2011 to move its headquarters nine miles from Secaucus to Newark. The CEO admitted that although they would have moved headquarters without the award, 80% of the employees would have stayed in New Jersey. Goya received $81.9 million to move two miles, and Lockheed Martin was recently awarded $107 million to move 10 miles from Moorestown to Camden. Prudential received $250.8 million to move just a few blocks—even as the company acknowledged the jobs were not at risk of leaving New Jersey, and that they would have added the jobs at either location.

2. *Future Year Liabilities Should Be Disclosed*

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Second, the new standard only requires that the value of the subsidy be disclosed for the first year of the agreement. We believe that if an agreement lasts longer than one year, all future year liabilities should be disclosed. Presumably, disclosing the value of the subsidy is just as important in subsequent years of the agreement as it is in the first year. Also, GASB has identified future year liability as an important disclosure in its new standards for other postemployment benefits, as well as its treatment of depreciation of physical assets.

In New Jersey, the majority of grants, especially the sizeable ones, extend quite some time into the future. The Economic Redevelopment and Growth Grant Program (ERG) program—New Jersey’s TIF program—can be awarded for revenues up to 20 years in the future. Projected revenue lost in fiscal year 2015 to subsidy programs is $338 million, which is anticipated to rise to $2.9 billion by fiscal year 2019, and will likely accelerate even more in future years. This makes it all the more necessary to fully disclose the amount of these subsidies in every year of the program, not simply the first year.

3. Tax Increment Financing Programs (TIFs) Should Be Included

Finally, tax increment financing programs (TIFs) should be included as a “tax abatement” program, and should be disclosed. TIFs use projected future gains in taxes to subsidize current improvements. The assumption is that, due to the development project, future property tax revenues will increase more dramatically than what would occur without the improvements. A TIF dedicates tax increments within a defined district to finance the debt that is issued to pay for the project.

Because TIFs do not directly involve lowering the taxes paid by a company, they may not get captured by GASB’s current definition of “tax abatement.” This would be a huge flaw in reporting, because TIFs divert tax revenues away from public services, and therefore reduce government revenues. Currently, 49 states use some form of TIF.

New Jersey’s ERG program has increased steadily from 2008 through 2013. The state has approved an estimated $1.3 billion in future tax diversions in just over 5 years, and three of the five largest subsidy packages granted out under the Christie Administration have been ERG grants. One single condominium project in Jersey City cost the city and county nearly $1 million in lost revenue in 2007 alone; the full TIF will last 20 years.

Identifying and disclosing these publicly would help taxpayers and policymakers better assess their value.
In summary, while we commend GASB for proposing new disclosures of tax abatement programs, we believe that these disclosures can be improved greatly. Thank you for your consideration of these comments.

Sincerely,

Hetty Rosenstein
NJ Director

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3 U.S. Census Bureau’s Statistics of U.S. Businesses and the NJPPP.
4 New Jersey Conference of Mayors. “NJ’s Version of Tax Increment Financing... RADs will Provide Municipalities with Another Tool to Encourage Redevelopment Projects.”