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Massachusetts Budget and Policy Center

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Sent via email to: director@gasb.org

Re: Project No. 19-20E

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

Dear Mr. Bean,

We at the Massachusetts Budget and Policy Center (MassBudget) are writing with regards to GASB's *Exposure Draft on Tax Abatement Disclosures*. We commend the board's progress thus far and also offer several comments and suggestions, below. To begin, however, we provide a description of our organization and our special interest in these issues.

MassBudget is a non-partisan policy research organization producing analysis and data-driven recommendations focused on polices that can improve the lives of low- and middle-income children and adults, while also strengthening our state's economy and enhancing the quality of life in Massachusetts. In particular, our work addresses how our Commonwealth can achieve these objectives while maintaining fiscal stability through an adequate, fair, and efficient tax system. Integral to the success of each component of this work is a high-degree of government transparency and accountability and thus we strongly support efforts to improve and expand reporting on tax abatements at all levels of government.

Recognizing the important and constructive work already completed by the board in assembling the current *Exposure Draft*, we offer three suggestions. We believe each of these suggestions represents a logical complement to or clarification of rules already proposed by GASB to address specific tax abatement issues or concerns. The suggestions are as follows:

1. *Require deal-specific, company-specific disclosure:* For citizens and investors alike, understanding the true fiscal situation and potential downside risks faced by a local or state government often requires understanding the details of specific tax abatement agreements made with a particular company. This is especially true when the agreement is large relative to the budget of the government in question, or when a large corporation is negotiating such a deal with a small or struggling

community. Such deals can affect the budgets of these communities in deep and lasting ways.

In Massachusetts, for example, in 2010, the city of Westfield (population 41,000) signed a $100 million property tax abatement deal with Energy Management, Inc. as part of that company's plan to build a natural gas-fired power plant in Westfield. Disclosure of the details of this and other such tax abatement agreements is essential to understanding the true fiscal situation of a city like Westfield and others like it. We therefore recommend that GASB address this concern by requiring deal-specific, company-specific disclosure.

2. *Require future-year liability disclosure:* Intrinsic to a full and accurate picture of the fiscal health of a government body is an understanding of all its liabilities, as they affect both current and future budgets. These liabilities include forgone revenue as well as promised expenditures (on infrastructure or other outlays) that may accompany tax abatement deals into which the government has entered, not merely in the current fiscal year but in the years ahead.

   In 2010, for example, the Commonwealth and the City of Boston provided a $38.5 million subsidy package to Liberty Mutual as part of the company's plan to construct a new headquarters in downtown Boston. Elements of this deal, including $16 million in local property tax abatements to be spread out over 20 years, will impact these governments' budgets for years to come.

   Just as with disclosure of pension, OPEB and capital costs, citizens and investors need access to the specifics of these future year obligations in order to assess a government's near and long term fiscal health. We therefore recommend that GASB address this concern by requiring disclosure of these future-year liabilities in a deal-specific, company-specific manner.

3. *Clarify that disclosure includes all costs associated with tax abatement agreements:* Because the tax abatement agreements into which a government may enter can vary widely in their structure while still having substantial, direct impacts on the government's fiscal health, it is important that GASB's definitions and disclosure rules cover the full array of such possible agreement structures and costs. Two particularly notable examples of such costs, which, under the definitions and rules proposed in the *Draft Exposure*, may not be subject to disclosure, are costs resulting from tax increment financing (TIF) and from performance-based incentives.

   In the case of TIFs, a government agrees to divert tax revenues away from core public services, instead directing these resources toward some purpose that directly benefits a company with which the government has negotiated a deal. While the company may not see its *taxes* reduced under such an agreement, such deals nevertheless clearly impact the fiscal health of participating governments, and do so as a result of a specific agreement benefitting a specific company or project. In Massachusetts, in 2006, for example, the Commonwealth agreed to issue $34 million in bonds (as part of a $67 million deal) to pay for infrastructure improvements at the site of a new Bristol-Meyer Squibbs pharmaceutical plant. Ongoing, associated debt service costs from this and other deals necessarily affects the amount of resources available for use elsewhere in the state budget.

In the case of performance-based incentives, a government agrees to abate a company's taxes in direct response to performance of a designated, eligible activity by said company. In many cases, however, such agreements provide access to the tax abatement only *after* the company has performed the given activity. In Massachusetts, two such examples include our state Film Tax Credit, which costs the Commonwealth some $70 million to $80 million annually, and our state Research Tax Credit, which costs the Commonwealth a similar amount annually.

In the *Exposure Draft*, GASB appears to remove such tax abatements from its definitions of abatements requiring disclosure, because completion of the eligible activity precedes issuance of the tax credit. It is unclear why the order of these two directly connected events should prevent citizens and investors from obtaining a complete picture of the Commonwealth's obligations and liabilities.

Finally, though we have yet to see widespread use of such tax abatement mechanisms in Massachusetts, we would draw, preemptively, the board's attention to two additional areas of concern for us: personal income tax diversions to employers and sales tax diversions to retailers. As each of these involves a project-specific agreement between a government and a potential taxpayer - with an accompanying loss of revenue to the participating government - citizens and investors again are best-served by a full disclosure of the associated costs. We therefore recommend that GASB ensure their inclusion in the new disclosure requirements – along with disclosure of TIF and performance-based incentives – whether by clarifying definitions or rules proposed in the *Exposure Draft.*

We at MassBudget appreciate the opportunity to comment on the *Exposure Draft on Tax Abatement Disclosures*. We believe the new standards will enhance significantly the accuracy and utility of state and local Comprehensive Annual Financial Reports. This, in turn, will be of great benefit to the general public and to investors, both of whom have a strong interest in the long term fiscal health of these government bodies.

Sincerely,

Kurt C. Wise

Kurt Wise, Senior Tax Policy Analyst