



Letter of Comment No. 213
File Reference No. 19-20E
Date Received: 1/28/2015
An affiliate of the
American Federation
of Teachers, AFL-CIO

January 14, 2015

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AFT Alabama teachers
and support staff:
ordinary folks doing
extraordinary work
every day.

Dear Director:

The Jefferson County (Ala.) American Federation of Teachers and the Birmingham AFT offer this comment in response to the Governmental Accounting Standards Board's exposure draft of a proposed statement of accounting standards for tax abatement disclosures (Project No. 19-20E).

The Jefferson County AFT and the Birmingham AFT represent teachers, paraprofessionals and school-related personnel in Jefferson County, Ala., which includes Birmingham. We fight for neighborhood public schools that are safe, welcoming places for teaching and learning. We frequently advocate at the state level to ensure necessary funding so that teachers and school staff are well-prepared and well-supported, have manageable class sizes, and have time to collaborate so they can meet the individual needs of every child. As advocates for fair and equitable funding for public schools, we frequently analyze Comprehensive Annual Financial Reports of the state and of our school district. Comprehensive and accurate financial information about state and local governments is critical, especially in light of Jefferson County's 2013 bankruptcy.

We commend GASB for trying to bring greater transparency to the loss of tax revenues to economic development tax abatements. GASB's proposed rule will provide vital information on state and local tax abatements and increase the usefulness of Comprehensive Annual Financial Reports. While we understand that abatements themselves were not the direct cause of Jefferson County's bankruptcy, they contributed to the county's fiscal problems, and full abatement disclosure would help ensure that our county and our state retain their fiscal health.

However, we see areas where GASB could improve and strengthen the proposed tax abatement rule. For example, the proposed definition of "tax abatement" would likely exclude some economic development programs in Alabama. One such program is a sales tax diversion program that allows a retail store, in exchange for locating in a particular city or county, to keep, or be granted a rebate of, a portion of the sales tax. Since the sales tax is a main revenue source for education in Alabama, the revenue lost to this program directly affects Alabama classrooms. However, because the original source of revenue is consumers rather than the retailers, we fear such expenditures will elude your "tax abatement" definition because they do not constitute a tax reduction for the retailer but instead are a tax diversion to the retailer.



Also, the GASB's rule apparently does not cover so-called performance-based programs, such as the income tax capital credit in Alabama. This program, which provides credits against business income taxes based on capital spending, cost the state \$55.6 million in 2012. Another performance-based tax abatement, our state's film production tax rebate, is paid out of the state's Education Trust Fund. This program cost the state \$13 million in 2013, money that could have gone to the classroom.

The GASB's disclosure standard would serve Alabamans poorly if it were to miss these major economic development tax abatements. Accordingly, the definition of tax abatement should be broadened to include economic development programs like those described above.

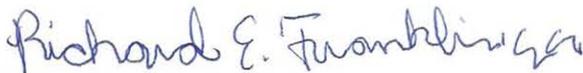
GASB should also consider requiring documentation of the long-term cost of economic development deals in a state and local government's financial reporting. Several of Alabama's economic development deals create not only present-year costs but also future revenue loss because of multiyear abatement obligations lasting as long as 20 years. In 2002, Alabama granted nearly \$234 million to Hyundai for locating in Montgomery County. This package included \$76.7 million in corporate income tax credits and property tax abatements, and those subsidies are still being paid out 13 years later.

We commend GASB for this important first step in bringing greater transparency to economic development tax abatements and for its recognition of the effect these large expenditures can have on state and local government finances. We urge GASB to adopt a strong final rule that incorporates our recommendations. Thank you for the opportunity to comment on these issues.

Sincerely,



Marriane Hayward, President
Jefferson County AFT



Richard Franklin, President
Birmingham AFT