



January 28, 2015

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: October 20, 2014 Exposure Draft on Tax Abatement Disclosures (Project No. 19-20E)

Dear Mr. Bean:

Eide Bailly LLP commends the GASB for their effort in evaluating information that is relevant to users of governmental financial statements. Eide Bailly LLP is a regional public accounting firm that serves over 400 governmental agencies of all sizes.

While we believe that tax abatements are an area of interest to the users of the financial statements, we have concerns that such disclosure may also be misleading without the proper frame of context. We have two primary areas of concern regarding both the scope of the proposed standard and the focus of the proposed disclosures.

Concerns over the Scope

We believe the scope of the proposed standard is too narrow to provide a full view of tax abatement arrangements to users. In paragraphs 3 and 4, the scope includes agreements between governmental entities and taxpayers that reduce the government's tax revenues in exchange for the promise of a specific action "that contributes to the economic development or otherwise benefit the governments or the citizens of those governments." Governments have many programs structured to contribute to the economic development or benefit of the government or its citizens. Tax incremental financing (TIF) arrangements are a common tool for governments to contribute to economic development. In addition, at times, we have observed governmental entities that engage in both TIF and tax abatement agreements that are integrated to stimulate economic development, and to disclose the abatement arrangement without corresponding disclosure of the TIF arrangement does not capture the complete arrangement. Along those lines, it is common for TIF arrangements to result in an increased tax for a specified period of time. It could be misleading to only include disclosures when tax revenue is lost, and not when limited term additional taxes are assessed.

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In addition, tax relief is frequently extended to a variety of organizations based on their purpose, such as charitable and religious organizations, educational institutions, other governmental entities, etc. The scope of the proposed standard does not extend to such entities, and it may be misrepresentative to exclude such entities when a user is gaining an understanding the full scope of revenue concessions a governmental entity has made.

Focus of the Disclosures

The focus of the disclosures as outlined in the exposure draft concentrates on the purpose of the abatements, the criteria that qualified the entity for the abatement, and the lost revenue. We believe there are two missing elements as described below.

First, abatements are provided for a variety of reasons to a variety of taxpayers, and the proposed disclosures do not provide for the true economic impact on the affected governments. For example, we have observed specifically defined abatement programs where participating taxpayers must meet performance obligations such as bringing new companies to the community, or existing companies creating a certain number of new jobs or expanding their facilities. In addition, we have also observed separately negotiated abatement agreements for which the sole purpose is to retain a significant employer in the community. Some of these agreements result in true decreases in revenue from prior periods while other agreements only delay an increase in revenue to a future period (such as a new employer or new development that was not previously contributing to the revenue base). The disclosures, as currently proposed, portray that all abatement agreements result in declining revenue, which may be misleading to users.

Second, the proposed disclosures do not provide an appropriate platform to provide the full context of the costs and benefits considered by the governing officials, and the expected results of each agreement. Without an opportunity for management to expand on the analysis and expected benefits of the abatement agreements, users of the financial statements may not be provided the full context for which the agreement was considered and potentially draw incorrect conclusions. However, while we believe it is potentially misleading not to provide such information, we also believe the financial statement disclosures are not an appropriate location for management's narrations of the expected benefits of the agreements. If the GASB decides to continue with this project, we encourage the Board to consider moving this information to RSI or statistical information which provides a more appropriate place to allow management the latitude to expand on their reasons and evaluations of the expectations and effectiveness of the agreements.

Other Comments

In addition, we noted the following regarding the exposure draft.

Paragraph 6c states that the disclosure should include "the dollar amount by which the reporting government's tax revenues were reduced". It is unclear whether this reduction should be on a cash, modified accrual, or full accrual basis. In addition, given that an abatement might affect several governmental entities with differing year ends (i.e. a county might have a 9/30 year end while a school district has a 6/30 year end), it may be difficult to assess the effect of varying year ends. We encourage the Board to address this issue.

Paragraph B30 discusses tax abatement agreements considered as "finance-related legal or contractual" commitments. We encourage the final draft to expand and provide illustrations of such arrangements.

Some abatement agreements have non-disclosure clauses or contain personal information that may not be appropriate for a publicly distributed document. We encourage the Board to assess how to address this issue.

Again, we appreciate the opportunity to comment on this proposal. We would be happy to discuss any of our comments with the individual members of the Board or GASB staff. Please direct any comments to Scot Phillips at 208-383-4753.

Sincerely,

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Eide Bailly LLP