



January 29, 2015

Mr. David R. Bean, CPA
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merrit 7, PO Box 5116
Norwalk, CT 06856-5116
Via email: director@gasb.org

RE: Proposed Statement on Tax Abatement Disclosures Project No. 19-20E

Dear Mr. Bean,

Thank you for this opportunity to comment on the Governmental Accounting Standards Board's (GASB) Exposure Draft of a proposed statement on Tax Abatement Disclosures. PolicyLink and the Pratt Center for Community Development are jointly submitting comments in support of the proposed rules, with four recommendations to increase their effectiveness.

PolicyLink is a national research and action institute based in Oakland, California, that works to advance economic and social equity—just and fair inclusion into a society in which all can participate, prosper, and reach their full potential. The Pratt Center for Community Development is located in New York City and provides a variety of urban planning and economic development services in low-income communities to help build a more equitable and sustainable City. Pratt is also a founding member of the Urban Manufacturing Alliance, a coalition of more than 50 cities across the United States that are committed to inter-city collaboration to share research and best practices to strengthen the manufacturing sector and create jobs. Through the UMA, PolicyLink and Pratt are working with economic development staff from cities around the country on equitable innovation economy strategies, including economic development policies and programs to promote business growth, job creation, and connecting local residents to these new job opportunities.

We applaud GASB for taking this historic step to standardize state and local governmental reporting practices related to the costs of economic development programs. The disclosures described in this statement will provide essential information on the financial position and economic condition of governments, which will aid our organizations in developing appropriate strategies for cities that are financially feasible and advance economic and social equity. We are pleased and excited that GASB is taking this important step.

We have four recommendations that would increase the impact of this reporting to help citizens and legislative and oversight bodies in making economic, social, and political decisions related to the fiscal and economic condition of their cities:

- 1. Require disclosure of recipient compliance with commitments made by the tax abatement recipient.** We agree with the Board’s belief that commitments a government receives from tax abatement recipients are relevant information that should be disclosed. However, we appeal to the Board to reconsider the conclusions drawn in Appendix paragraph B35: “The Board observes that whether a tax abatement recipient fulfills the promise it made in a tax abatement agreement is a matter of compliance by the recipient, not by the reporting government. As a result, this Statement does not require disclosure of the information about recipient compliance.” Reporting on annual progress towards meetings those commitments will provide valuable information on the effectiveness of the abatements as a policy tool and to assess how realistic the original commitments were in order to inform future tax abatement programs. Whether or not a business is able to meet its commitments will also provide important information that may signal business or industry distress that may negatively impact future government tax revenue streams or trigger clawback provisions that will have an immediate impact on government tax revenues. Understanding whether corporations are complying with tax abatement rules is critical to assessing “the impact those abatements have on the government’s financial position and economic condition” (exposure draft page iv). If a city is voluntarily reducing its tax revenue in exchange for the promise of greater revenue later on due to an expected increase in jobs but the jobs never arrive, its economic health is arguably harmed. Moreover, whether a government has a habit of entering into ineffectual tax abatement agreements is of interest to financial statement users. Disclosure of recipient compliance is essential in order to evaluate the effect of these abatements on the government’s overall economic condition. We strongly encourage the Board to add language to the statement to require annual reporting on progress towards commitments made by the tax abatement recipient.
- 2. Require disclosure of individual tax abatement recipients.** As New York City and others have shown, it is not overly onerous to disclose individual company names of all tax abatement agreements, and doing so has greatly increased public accountability and transparency of their economic development programs. At PolicyLink, we work with cities to analyze the impact of their economic development programs on low-income communities and communities of color. The ability to disaggregate data by company is essential to understand the equity impacts of these programs. By incorporating it as standard reporting procedures, it allows cities and researchers to track impacts across cities and regions and compare across places to determine the most effective practices. Further, disaggregation of tax abatement programs by company allows for a greater understanding of the financial positions of cities through industry-based projections and analyses of the companies that receive abatements.
- 3. Require disclosure of outstanding future liability** in order to provide a comprehensive view of the full cost of the abatement on government and its likely fiscal impact on future budgets. While the Board has concerns about developing “specific measurement guidance” (Appendix paragraph B26), these concerns should be weighed against the

immense benefit of knowing future obligations, which could have a significant impact on the city's future revenues and fiscal and economic condition.

- 4. Ensure all forms of tax abatements and disclosures are covered in this statement.** Tax-increment financing, performance-based abatements, and other similar abatements should be covered to avoid oversights that may impact the economic performance of cities. Tax increment financing can have dramatic impacts on the fiscal condition of both the governmental entity that enters into the tax abatement agreement, and also other governmental entities that experience a loss in increase in revenues. Performance-based incentives award the tax abatement or credit after the recipient has performed the promised activity. In each of these, governments experience a loss in revenues or a loss in increase in revenues, and should thus be disclosed under the guidelines of this statement. By including these and other similar abatements, it allows for a comprehensive assessment and comparison of the effectiveness of different programs in achieving their economic development objectives, which has a direct impact on the projected fiscal condition of the city or state involved.

Thank you for this opportunity to comment on the draft proposed statement on tax abatement disclosures.

Sincerely,

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