

By Electronic Mail
January 29, 2015

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

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

Dear Mr. Bean:

As leaders within the philanthropic community who support civic engagement and government reform, we write to express our strong support for GASB's Exposure Draft on Tax Abatements. We also urge that you adopt important recommendations for strengthening the standards to achieve GASB's objectives for open, accountable and effective government at the state and local levels.

We believe that broad and inclusive engagement by affected communities and individuals in their own state and local governments' decisions is the cornerstone of our democracy and effective government. Effective government also requires that government information be transparent and readily accessible including electronically readable, searchable and sortable. Moreover, government decisions need to be based on merit in the public interest, not on private pecuniary interests. As much as ever, it is a priority to increase public confidence and participation in the way that government works.

For these reasons, we lend our strong support to GASB's efforts. It is important that the public (including taxpayers and community groups) and elected and appointed officials have timely, complete, uniform and user-friendly information on how state and local governments raise and spend public dollars intended to promote jobs, economic development and other community benefits. In addition, members of the public have a central interest in their government's short- and long-term financial health and budget decisions. Moreover, large financial deals between government officials and individual private companies (or other entities) are inherently fraught with concerns about conflicts of interest and whether the public interest is being properly served.

All of these are critical concerns to us as nonprofit funders and community partners who seek to promote open and participatory democracy, as well as economic justice, at the state and local levels. By law and practice, we serve a public purpose, not private interests. Revenues, such as those affected by tax abatements, diversions and other vehicles, are used to fund the vital public investments and services necessary for people, communities and civil society to thrive.

In supporting the Exposure Draft, we commend its requirement that school boards and other educational institutions report the significant “passive losses” that result from actions taken by other governmental entities. See paragraph B14 of the [Exposure Draft](#). Education is the engine of productive economic development and of civil society. This aspect of education finance is little understood and has not been systematically disclosed to date.

There are important ways that the GASB should strengthen the Exposure Draft to ensure timely, complete, uniform and user-friendly information for all stakeholders. First, we urge the GASB to amend relevant language in the Exposure Draft to ensure that the final standards clearly require disclosure of *all* major tax-based agreements entered into by state and local governments with an individual, corporation or other entity. These include revenues foregone using tax increment financing (TIF) – perhaps the most costly tax abatement vehicle; personal income tax diversions to employers (PIT); sales tax diversions to specific retail companies; Payments in Lieu of Taxes (PILOT); and corporate income tax credits and other performance-based incentives.

As the GASB notes, the key feature of tax abatements for purposes of these standards is “the existence of...an identifiable agreement between a [state or local] government and a specific taxpayer (individual or entity)” in which the government promises to forego tax revenues that otherwise would have been owed in exchange for the taxpayer performing a public benefit. See and compare paragraph B6 of the [Exposure Draft](#). The way in which the government agrees to give up revenues and the timing of when the taxpayer agrees to perform the public benefits are not material for disclosure purposes. Indeed, failure to disclose *all* similar abatement agreements could unintentionally lead to greater use of vehicles that operate with less visibility.

Second, the Exposure Draft should require state and local governments to disclose the costs of these tax abatements not just for one year but for their scheduled durations. Future-year projections can be modified in subsequent financial statements as warranted. It is not unusual for public officials to seek to mask or even pass on the costs of current projects to future years and generations. Responsible budgeting and financial evaluation look out several years. The public needs to see the full cost of tax abatement agreements to ensure an effective and accountable government. Similarly, recipient-specific reporting, particularly with respect to larger abatement agreements, would provide stakeholders with relevant and more complete information for evaluation and decision-making.

Finally, the final standards should require that tax abatement disclosure information be user-friendly and electronically accessible. Language used in other transparency legislation has required that “information be made available to the public in a searchable, sortable and machine-readable format.” See Sunlight Foundation Website, www.SunlightFoundation.com.

We look forward to working with our grantees and other partners – including state and local officials - to help to implement GASB’s new standards and best use the information to promote open, accountable and effective government. By helping address “fiscal literacy,” the GASB’s new standards will improve civic engagement in fiscal policy, budgeting, and economic development.

Sincerely,

Nancy R. Bagley, President
Anna Lefer Kuhn, Executive Director
The ARCA Foundation

Alan S. Davis, President
Leonard and Sophie Davis Fund

John R. Hunting, Chairman (in his individual capacity)
Dyer-Ives Foundation

Lawrence S. Ottinger, Chairman
Ottinger Foundation

Doug Phelps, President
Douglas H. Phelps Foundation

Daniel Solomon, President
Ann F. Hoffman, Consultant
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