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Sent via email to: director@gasb.org

RE: Project No. 19-20E

Director
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear GASB Director:

We write in response to comments filed by: the Government Finance Officers Association (GFOA); the GFOA, National League of Cities, U.S. Conference of Mayors, National Association of Counties, and the International City/County Management Association; the Florida Government Finance Officers Association, Inc.; and the Illinois Government Finance Officers Association.

Economic Development Benefit Accounting: Central to the above-named comments are two related arguments. One is that tax abatement costs should not be disclosed unless their benefits are also reported. The other is that since governments perform cost-benefit analysis (or return on investment calculations) there is likely to be no net cost (and, by implication, no costs to report). Indeed, the GFOA/NLC/USCM/NACo/ICAM comments states in part:

Including only a disclosure about the abated tax revenue, without any mention of the return on investment analysis that preceded it or a discussion of the benefits expected as part of this agreement, only tells part of the story and would mislead, rather than inform, the users of government financial statements. ...If governments were to follow the proposed guidance, the disclosure would report that the government would lose revenue and, therefore, have a diminished ability to meet its obligations, when in reality, the agreement is expected to generate revenue.

There are logical flaws in both of these arguments. If one were to account for the benefits of an abatement deal that increased employment (while recalling that many fall short or fail), to be rigorous one would also have to account for the fact that employment growth stimulates in-migration. Population growth, in turn, means new government costs: teachers hired; schools expanded; roads, water and sewer lines built; and trash hauled. There is no such thing as free growth. Where would such accounting end?

Adding a benefit accounting, even if it were feasible, would be duplicative. The GASB declined to call for the disclosure of revenue gained when governments exercise their rights under economic development clawbacks, reasoning that such revenue is already reflected in general revenues. The same would hold for any revenue benefits of tax abatements. That is, any abatement ROIs are already captured; restating them would amount to double counting.

Finally, the GASB Exposure Draft never contemplates an accounting for benefits, and we assume this is for good reason and consistent with its longstanding body of accounting standards. For if every economic development investment's return had to be accounted for, then states and cities would have to also account for the benefits of public education, infrastructure, and workforce development. Or logically extended to other public purposes: what about criminal justice reform that reduces recidivism and thereby reduces corrections expenses? Wellness expenditures that reduce health care spending?

Cost-Benefit Analysis in Practice: GFOA et al seem to suggest that cost-benefit analysis in state and local economic development in the United States exists as some sort of uniform, consensus methodology. However, just the opposite is true—when it is even practiced.

Consider these episodes:

- North Carolina's legislature, in a one-day 2004 special session for a company whose name it had not been previously provided, granted Dell the most expensive tax abatement deal in the state's history (long-term more than \$240 million). Not disclosed in advance for public scrutiny was a state analysis that projected more than 8,000 jobs (1,500 Dell jobs and an implausible ripple-effect ratio), twice as many as a competing state estimated. The plant merely assembled components made in Asia (as later cataloged in Thomas Friedman's book *The World is Flat*), so its "upstream" job creation in North Carolina must have been poor. And "downstream" ripple effects could not have been robust given Dell's low wage levels. The plant's closure was announced in 2009 and the state lacked the ability to claw back the tax credits it had paid thus far.
- When in 2010 Rhode Island awarded a \$75 million subsidy to 38 Studios, a video game venture led by a celebrity athlete, it was so anxious to do the deal that due diligence apparently fell far short. The company soon failed, litigation ensued, and the state is still indebted for bonds it must pay off without the benefits of anticipated job creation.

- When Nevada legislators prepared to vote in a hastily convened special session on a package for Tesla Motors' battery "giga-factory" in 2014, the Governor's office circulated a document that included numbers generated by a widely used input-output modeling product. However, one set of numbers included was for projected benefits to all 50 states ("National Multipliers"), a remarkable data-point we'd never seen used for a given state (and the deal was a partnership with Panasonic).¹ The document also referenced BMW in South Carolina, but 20 years later, BMW still imports engines from Germany. Nor was it evident if the computations accounted for the fact that many of the job takers are likely to be California residents, given the Storey County facility's proximity to the state line. (The \$1.3 billion tax abatement allows the recipient to continue to qualify even if 49.9 percent of the workforce does not reside in Nevada.)
- Sears Holding Corp. has laid off hundreds of Illinois employees since receiving a long-term abatement worth up to \$275 million in 2011. How does one calculate an ROI with a negative job numerator?

The ever-present tendencies to exaggerate ripple effects, mix apples and oranges, and misrepresent data are especially evident now because elected officials have been competing for a depressed number of deals for many years. It is little-known that the total number of deals for which states and cities could compete actually crashed severely *before* the Great Recession, dipped further in the recession, and has still not recovered to half the levels of the late 1990s.²

If "supply" is depressed and "demand" is elevated (in the form of anxious public officials), the result is a spike in very costly "megadeals," which over their entire history since the late 1970s we found to bear an average stated cost of \$456,000 per job. We believe that no state and/or locality can break even at such a level of tax abatement.

"But For" Language: The GFOA/NLC/USCM/NACo/ICMA comment states:

In many cases governments enter into agreements containing tax abatements as a way to provide incentives for growth that, but for the agreement, would be unlikely to occur.

Here, the commenters seem to recommend exceptional, low-scrutiny treatment for economic development tax expenditures. However, the history of site location in the United States is very clear: the "but for" construction evolved as a political deflector. As I detailed in chapters 2 and 3 of my 2005 book, *The Great American Jobs Scam*³, the Fantus Factory Locating Service, born in New York City in 1937, grew into an enormously powerful consultancy in the post-war years that effectively codified a system that granted private taxpayers inordinate power to play states and cities against each other in what game theorists call the "prisoners' dilemma."

To this day, every jurisdiction awarding a tax abatement must essentially accept at face value whatever representations an abatement recipient makes about location choice. Although examination of a deal's financials may occur (or the existence of an easily obtained competing offer may be verified), no jurisdiction requires disclosure of records that would reveal a taxpayer's actual decision-making calculations among competing jurisdictions (i.e., board minutes, reports from site location consultants, internal executive correspondence, ROI calculations that reflect state tax codes, apportionment effects, and non-tax cost variables that matter far more than taxes).

Thus a public official, when questioned about whether a tax expenditure is necessary or excessive, can point to the beneficiary taxpayer and say "the taxpayer says but for the tax abatement, the deal would not happen," effectively ending the conversation because the taxpayer will never be required to prove his or her word.

Taxpayer Privacy: Various references made to non-disclosure agreements and/or taxpayer privacy laws are irrelevant and misleading. Nothing in the GASB's Exposure Draft contemplates the disclosure of proprietary business information or tax returns. Nor does the Draft call for individual recipient reporting. Good Jobs First has recommended recipient disclosure; many states already disclose individual economic development corporate income tax credits online (e.g., Illinois, North Carolina, Missouri, Texas, Pennsylvania, Wisconsin). Property and sales tax abatements we have almost never found shielded.

Existing Data Quality: Illinois GFOA argues that various kinds of extant abatement reporting suffice. We disagree. Two points here that may inform Illinois GFOA's perspective: Illinois happens to have the best online economic development subsidy disclosure website (for recipient-specific data) in the nation; it "won" all three of our 50-state transparency report card competitions (in 2007, 2010 and 2014). Illinois also happens to have a greater degree of state aggregation of data about tax increment financing districts than all but a handful of states (and even at that, it has not been gathered completely since 2008). Similarly, not many states aggregate other kinds of local economic development spending data, such as property tax abatements, which are often the costliest single tax expenditure within a multi-abatement package.

We reiterate: the only thing that can be said for certain about economic development tax abatements is that they are extremely expensive. That's why the GASB's Exposure Draft on Tax Abatement Disclosures is so historically important, and why to be rigorous and complete it needs to encompass future-year liabilities.

Sincerely,



Greg LeRoy
Executive Director

¹ For a useful literature survey on input-output models and related tools, we recommend “Evaluating Business Development Incentives,” U.S. Department of Commerce, Economic Development Administration, EDA Project #99-07-13794. Prepared by: National Association of State Development Agencies, W.E. Upjohn Institute for Employment Research, and The Urban Center, Cleveland State University, August 1999. Online at: www.goodjobsfirst.org/sites/.../EDA_EvaluatingIncentives_1999.pdf .

² See our analysis of this phenomenon, based in part from annual surveys by Conway Data, Inc., publishers of *Site Selection* magazine, in *The IEDC Economic Development Journal*, Vol. 12, No. 4, Fall 2013. “The Future of Economic Development Subsidies,” by Greg LeRoy, pp. 35-39.

³ See chapters 2 and 3 of Greg LeRoy, *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation* (Berrett-Koehler, 2005) at <http://www.greatamericanjobsscaml.com/pages/preview-book.html> .