

Comments of the North Carolina Justice Center  
Regarding the Proposed Statement of the Government Accounting Standards Board  
on Tax Abatement Disclosures, Project N. 19-20E

January 29, 2015

Allan Freyer, Director, Workers' Rights Project and Alexandra F. Sirota, Director N.C. Budget & Tax Center

Tax abatements given to individual companies are some of the most common tools used by state and local governments to promote job growth and economic development, costing as much as \$10 billion a year in foregone revenues.<sup>1</sup> Given tight budgets and ongoing fiscal retrenchment at the state and local levels, it remains critically important for lawmakers and the general public to know the true cost of the policies that purport to create jobs and grow the economy, including those involving tax abatements. The Governmental Accounting and Standards Board should be commended for taking a significant and positive step forward in meeting this need by issuing a proposed standard for tax abatement disclosure, as detailed in the Exposure Draft issued on October 20, 2014.

We generally support the intent and substance of the proposed rule and recognize the careful balance the Exposure Draft seeks to strike between the need for appropriate disclosure and concerns over needlessly complicating compliance. Given that many of the disclosure practices recommended in the draft are already used in conjunction with economic development projects in North Carolina (many of which have been recognized as national best practices), however, there are a number of adjustments to the Exposure Draft that we recommend in order to better strike this balance and achieve GASB's stated objectives.

Specifically, we recommend the following adjustments:

- 1. The standard should require the disclosure of required information about each tax abatement recipient at the level of the individual deal, rather than simply requiring aggregate disclosure from all deals together.**

We recognize that concerns over the feasibility of implementation led GASB to reject requiring disclosure of each individual tax abatement project—including the name of the recipient company—in favor of reporting these projects in aggregate. However, we disagree with this assessment and urge reversal of this recommendation. Fundamentally, we share the opinions of the CAFR users surveyed during the research phase of the project who placed a very high value on disclosure of this information. For the following reasons, we feel that the benefits of individual-level disclosure far outweigh the practical drawbacks for implementation, which we believe are less burdensome than GASB has expressed:

---

<sup>1</sup> Daphne A., Adam H. Langley, and Bethany P. Paquin. (2012). Rethinking Property Tax Incentives for Business. Lincoln Institute of Land Policy.

- a) The Exposure Draft expresses the view that the commitments a government receives from the tax abatement recipients are relevant, and that “a natural extension of the disclosure of recipient commitments is **disclosure of recipient compliance with those commitments.**” But if recipient compliance disclosures are not included in the financial notes (as the current draft reads), then there is no real way CAFR users can assess recipient compliance unless they are provided with this information. This is especially critical given the growing use of extremely large tax abatement packages that can mortgage future revenues—and the ability to meet future obligations—to the success of just one or two economic development projects. In North Carolina, regular recipient-level reporting has allowed us to see that almost 60 percent of the discretionary incentive awards offered through the state’s flagship Job Development Investment Grant (JDIG) program have been terminated for non-compliance. CAFR users should know if the ability to meet future obligations rests on a handful tax abatement projects with this kind of failure rate.
- b) While we commend GASB for recognizing the costs associated with standards compliance, we do not feel that requiring disclosure at the individual recipient level constitutes an overly burdensome mandate. In fact, as other commenters have noted, local economic development entities often keep detailed spreadsheets of every tax abatement project signed within that jurisdiction. And given the growing adoption of project monitoring and performance requirements at both the state and local level, there is every expectation that state and local governments will continue to collect data on project compliance at the recipient level. Indeed, the North Carolina Department of Commerce provides an excellent example of recipient level monitoring and disclosure that is relatively non-controversial and easily implemented. Every year, the Department of Commerce sends legislators and legislative staff a spreadsheet that contains every incentive deal signed since 2007 (when new reporting standards were put into effect), the name of the company, details about the specific award, the number of years over which the company must demonstrate compliance, and—crucially—the progress made by the recipient in complying with the terms of agreement.

**2. The standard should clarify disclosure requirements related to the non-tax commitments incurred as part of tax abatement projects in order to ensure that all economic development spending related to a specific project is reported, and not just that solely related to “significant” commitments, or those related to construction.**

In Sections B30 and B31, the Exposure Draft addresses the importance of disclosing other, non-tax-related commitments made as part of a tax abatement project, specifically identifying commitments involving infrastructure development. While we applaud GASB for including these additional, non-tax commitments, we feel that the guidance is not sufficiently clear as to how many, and what types of commitments require disclosure.

In B30, the concluding sentence states that “...this statement specifically requires disclosure of a government’s commitments other than to reduce taxes,” a statement reinforced in B31 by the requirement that “a government should disclose the types of other commitments that it has made, if any, in the tax abatement agreements in effect as of the end of the reporting period.” However, the sentence immediately after this statement in B31 appears to modify this disclosure to require “individually disclosing a government’s **most significant** specific commitments if any.” We are concerned that this concluding sentence in B31 could be interpreted to require the disclosure of only **significant** non-tax commitments, rather than **all** non-tax commitments, especially given that the specific examples provided in the Exposure Draft relate to infrastructure and construction-related projects.

As a result, we are concerned that governments could exclude from disclosure cash grant commitments given to recipients as part of tax abatement projects. The International Economic Development Council reports that cash grants are a growing tool used in incentive projects, and here in North Carolina, they form the largest form of non-tax commitment. **We urge GASB to clarify the guidance around this issue to ensure that all non-tax commitments, regardless of size or type, be included in disclosures at the individual recipient level.**

**3. The standard should require disclosure of the number of years remaining in all outstanding tax abatement agreements and the size of the abatement in future years.**

To that end, we encourage the GASB to require reporting on information that would allow evaluation of the future fiscal impact of tax abatements. To achieve this, the GASB could modify the standard to include that 1) reporting on the actual amounts that a tax abatement will cost in future years when that value is known and 2) when that value is not known but there is a known amount of assessed property values, a disclosure of the estimated revenue loss for future years based on the amount of exempt property value and 3) if it remains too difficult to calculate the estimated revenue loss due to economic conditions, changing tax rates, etc. then reporting the remaining years of the tax abatement.

Thank you for your consideration of these comments.