

January 30, 2015

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

RE: Project No. 19-20E

Sent via email to: [director@gasb.org](mailto:director@gasb.org)

Dear GASB Director:

As elected leaders in state and local government, we hereby comment in support of GASB's Exposure Draft on Tax Abatement Disclosures.

Overall, we strongly support your effort to make economic development tax expenditures more transparent. In the long, slow recovery from the Great Recession, there has been enormous pressure to grant tax-break deals. But in the same years of fiscal austerity, many governments have had to make painful budget decisions, sometimes at the expense of public education and infrastructure which benefit all taxpayers and are critical to long-term economic development.

Therefore, we and our constituents deserve the fullest accounting possible of tax abatement costs. Your new standard offers us the prospect of making budget decisions that are more fair and more fiscally sound, based upon a fuller understanding of a heretofore inadequately disclosed form of spending.

Total state and local spending for economic development has been estimated at \$70 billion per year, with the vast majority of that in the form of tax expenditures, or tax abatements to use the GASB's terminology. However, this is an estimate primarily for two reasons: 1) the GASB has not issued standards for economic development tax abatements before; and 2) very few states aggregate local abatement data, and in many cases property tax-based abatements (either property tax exemptions or tax diversions such as tax increment financing, or TIF) are the costliest single tax expenditure granted to a taxpayer.

To maximize the value of your final standard, we recommend four improvements.

First, your definition of tax abatement, by requiring that it involve a tax reduction, misses many major economic development tax expenditures that take the form of tax diversions. These include tax increment financing (TIF, which exists in 49 states and Washington DC), employee personal income tax diversions (which exist in at least 17 states) and consumer sales tax diversions (which exist in at least 18 states). The definition of tax abatement should encompass all of these tax expenditures, which otherwise meet all of the abatement criteria.

Second, while we applaud your proposal to require government bodies which lose revenue passively due to the actions of other government bodies (especially as this applies to school districts), we disagree with your proposal to require the reporting of only one aggregate dollar figure for such losses. Multiple tax abatement programs may contribute to passive-revenue losses. As policymakers seeking to make careful decisions and wanting to avoid unintended program consequences, we need to be able to clearly see, for example, the relative degree to which TIF districts, enterprise zones and/or property tax abatements are affecting our local schools.

Third, we need an accounting of future tax abatement spending obligations, not just a one-year retrospective report. Our budget deliberations are future planning exercises, so we need a full accounting of how abatements will affect future revenue. We know that some states and localities have made enormous abatement commitments that are clearly relevant to their future fiscal conditions. We also know such data already exists, whether in fiscal notes, project agreements, and/or legislative authorizations. However, those sources are dispersed; we need them aggregated to see the big picture.

Fourth, we recommend that the GASB standard require recipient-specific disclosures of tax abatements. This is necessary because in many places, very large abatements have been granted to a small number of taxpayers or to a narrow cluster of taxpayers. With many eggs in just a few baskets, risk is greater. This is also necessary for us to do a better job of overseeing tax abatements and holding taxpayers accountable, thereby protecting our budgets.

Again, we applaud the GASB for this critical and timely improvement in public accounting. We look forward to 2017 when this new data will become available, and hope you adopt our recommendations to make the new standard as effective as possible.

Sincerely,

(Names listed alphabetically. Affiliations listed for identification only; the views expressed here are attributable only to the signatories.)

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