Letter of Comment No. 286
File Reference No. 19-20E
Date Received: 2/4/2015

ALABAMA EDUCATION ASSOCIATION
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January 27, 2015

RE: Project No. 19-20E

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear GASB Director:

I am submitting this letter on behalf of Alabama Education Association (AEA) and its members who serve as educators in Alabama's public schools.

We are writing to applaud the Governmental Accounting Standards Board (GASB) for your proposed "Tax Abatement Disclosures" but also to provide you with two suggestions on how the standards should be improved.

The AEA advocates locally as well as statewide for public school funding on behalf of its members, and often uses various data sets including publicly reported budgets and expenditures to formulate policy and positions. Alabama income tax is constitutionally dedicated to teacher salaries, and sales tax is dedicated to education by statute. All expenditures or abatements of income or sales tax directly affect AEA member educators.

Your decision to require state and local governments to disclose the costs of economic development tax abatements as well as to require the governments to disclose costs of "agreements entered into by other governments" (Section B14) is an important and fiscally responsible decision. The new information that will result from this disclosure will allow AEA to better measure the impact that economic development tax abatements have on school revenues. In advocating for local salary increases, this data will be invaluable in demonstrating the affordability and sustainability of any salary increase or education expenditure.

However, we would like to also offer three modifications to the "Tax Abatement Disclosures" Exposure Draft.

Performance-Based Abatements: Alabama's Income Tax Capital Credit is one of the largest and the costliest ($66 million in 2013[1]) economic development tax abatement programs in our state. The program reduces qualified companies' corporate income tax liabilities for 20 years. For example, in 2013, Alabama committed to Bayer CropScience about $396 million in foregone revenue over 20 years through the program. Although the official costing of this agreement was not issued by the state, we now know that it existed thanks to a journalistic investigation.[2] For us, this an enormous revelation because in Alabama, 100 percent of income tax revenues are dedicated to education. This means that any economic development tax abatement program that alters corporate income tax obligations, like the Income Tax Capital Credit, takes money out of Alabama schools. In the example above, almost $20 million each year, every for 20 years, will not support education.

However, in reading Paragraph B8 of the Exposure Draft, we fear that performance-based incentives such as Alabama's Income Tax Capital Credit would elude your "tax abatement" definition. Merely because the recipient does not claim its income tax credit until an eligible activity is performed, in our opinion, there is no reason for it not to be disclosed as a tax abatement.

Full-Term Accounting: Alabama's long-term obligation to economic development tax abatement programs is enormous and these obligations will have a direct impact on our school budgets. The existence of the 20-year cost projection in the Bayer CropScience deal is typical, and strong evidence for the idea that the GASB should also amend the Exposure Draft to provide for full accounting of all future years of tax abatement obligations. It would be a prudent and fiscally responsible to require government entities to disclose their long-term fiscal liabilities to tax abatements. We need to see all such costs in their full durations in order to plan our educational future prudently.

Sales Tax Rebates and Diversions: We are concerned that economic development tax abatements that are structured as sales tax rebates, or sales tax "diversions", will escape your coverage because technically they do not alter companies' tax obligations (per your "tax abatement" definition in Sec. B12). Instead, these programs divert or rebate to retail companies sales taxes (that otherwise would support public budgets) paid by customers at particular stores. Those agreements are negotiated between retailers and government entities: retailers commit to locate stores in particular jurisdictions and those jurisdictions commit to rebate or allow the diversion to the retailers certain amounts of sales taxes generated by customers at those stores. The City of Decatur, Autauga County and Prattville City, the City of Mobile and Mobile County, and Gardendale City are just few localities in our state that have entered such agreements.[3]

This issue is of a great importance to us because, similarly to income tax, almost all of the sales taxes in our state go to the education budgets. If GASB's standard fails to cover sales tax abatements like those described above, our knowledge of tax abatements' impact on school revenues would be greatly diminished.

We applaud GASB for your commitment to transparency and accountability of state and local budgets. We are confident that the proposed rules will produce new information that will allow school boards and elected officials to make better-informed decisions about tax abatements and school revenue. We

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hope you will consider our suggestions regarding requiring disclosure of performance-based abatements, future-year costs and sales tax diversions and rebates.

Sincerely,

Henry C. Mabry
Executive Secretary and Treasurer

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[1] http://revenue.alabama.gov/documents/annual_report/2013_annual-report.pdf

[2] John Sharp, "Mobile government bodies endorse $800,000 of incentives for agri-chemical company," AL.com, May 28, 2013; available at: http://blog.al.com/live/2013/05/mobile_government_bodies_endor.html.

[3] Even though school portions of sales taxes are prohibiting from being abated, localities across our state have debated to abate or abated educational portion of sales taxes.