



February 19, 2015

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

RE: Exposure Draft – *Tax Abatement Disclosures* (Project No. 19-20E)

Dear David:

On behalf of the New York State Government Finance Officers' Association, Inc. (NYS GFOA), the Accounting, Auditing and Financial Reporting Committee, comprised of members with governmental accounting and auditing backgrounds in state and local governments as well as members in academia and public accounting, has reviewed the Exposure Draft (ED) document on *Tax Abatement Disclosures*.

#### **Overview**

In the ED, GASB states financial statement users need information about limitations on a government's ability to raise revenues. We agree with that statement. However, we believe this proposed statement fails to achieve that goal.

Before focusing solely on tax abatements, we suggest GASB would be more successful in better meeting this objective by requiring a Schedule be included in Required Supplemental Information (RSI) which would show all non-taxable property akin to the table (Figure 1) on Page 3 of this letter.

For many localities, the percentage of tax exempt properties exceed 70 to 80 percent of their total assessment roll, thus severely limiting the ability of those localities to generate property tax revenues. We believe for almost every local jurisdiction, the value of tax exempt properties far exceeds the value of tax abatement programs.

Further, there are a wide variety of other Federal, State and local tax exempt/abatement programs that are not included in GASB's proposed definition of a tax abatement program. These include a variety of economic development, tax exemptions, payment-in-lieu-of-taxes (PILOT), tax increment financing and other programs. For many governments, many of these programs could be providing tax relief in amounts that far exceed GASB's limited definition of tax abatement programs. To require disclosures pertaining to only one type of tax relief program is misleading when the totality of all the existing programs are not first disclosed.

#### **Availability of Data**

We are concerned that many jurisdictions do not have easy access to all the data required for footnote disclosures as set forth in Paragraph 6 of the ED, especially for abatements granted by other governments. This includes items such as eligibility criteria, the mechanism by which abated, and the commitments made by the granting jurisdiction.

For example, in New York State, under a program that has been implemented during the last decade or more, counties are now responsible for controlling and maintaining the assessment rolls for all property taxing jurisdictions within the county. A growing number of these local jurisdictions (cities, towns, villages, fire districts, school districts and other taxing districts) no longer have their own local assessors. These jurisdictions, through their budgeting process, determine the amount of property tax revenues to be levied and submit that number to their county which calculates the taxable assessment roll for each taxing jurisdiction (the County of Westchester is an exception in that the County determines the levy and informs municipalities within the County what they owe). The counties prepare and distribute itemized consolidated tax bills to the individual taxpayers.

While the counties likely are readily able to inform each jurisdiction of the number and amount of each tax assessment applicable to their tax roll, they may not have access to all the specific disclosure data cited in Figure 1 on Page 3. The county only needs that information for those tax abatements that affect their tax assessment role.

Further as an example, a school district's borders may overlap several cities, towns or other taxing districts that offer tax abatements requiring the school district to contact each of these taxing entities, each which may have different fiscal years and assessment role dates, to obtain the footnote disclosures cited above.

Obtaining the necessary data can be a time consuming and costly burden on such jurisdictions and requires disclosure of information in a footnote that they cannot easily verify with certainty.

If GASB elects to continue requiring these disclosures we recommend, at a minimum, that these disclosures be included as Required Supplementary Information (RSI). Only the total number and amount of the tax abatements should be required disclosures in a footnote.

One alternative would be to allow the reporting jurisdiction to make reference to the financial statements of other governments to find the specific data cited in Figure 1 on Page 3.

### **Commitments**

Commitments made by a government, other than to abate taxes, can take many forms. Some are physical improvements such as providing roads, sewer or water lines. Some may be giving relief from paying building, zoning sewer, water or utility fees. While having to incur some cost, jurisdictions may be able to measure these commitments.

Others may not be as measurable. For example, a jurisdiction may exempt a developer from paying local sales taxes for a period of time, the amount of which is not measurable, thus the amount is not known for disclosure.

We suggest that GASB develop specific examples in its Comprehensive Implementation Guide to provide guidance for these and similar type commitments.

### **Is the Data Auditable?**

Assuming a jurisdiction can obtain the eligibility criteria, the mechanism by which abated, and the commitments made by other granting jurisdiction(s), the required information to be disclosed in a footnote has to be auditable. Auditors will have to make a risk assessment as to the validity of the data and there are potentially cases where this could lead to modified opinions. This potential again suggests this type data would be best disclosed as RSI data.

### **Benefits from Tax Abatements**

We believe the proposed statement is seriously deficient by not requiring disclosure of the benefits to be derived from granting the tax abatements. Financial Statement readers should expect that if a jurisdiction granted a tax abatement then it expects to receive something of value in return.

For example, a jurisdiction may grant a tax abatement for the building of a hotel from which it expects revenues such as sales and hotel taxes, local construction and permanent jobs, and local economic revenues from spending by patrons of the hotel.

We also believe disclosure should be required if the recipient of a tax abatement has not complied with whatever commitments they made in receiving the abatement and the consequence thereof. Does the abatement continue, terminate or is it recaptured?

At a minimum, the proposed Statement should indicate that information of this type should be disclosed in the Management Discussion and Analysis (MD&A) for the tax abatements granted in the current fiscal year and in the RSI for abatements granted in previous years.

### **Future Year Commitments**

We fail to understand why GASB does not require the disclosure of future tax abatements as foregone revenues. Paragraph B-26 of the Basis for Conclusion in the ED agrees that this would be good information. We encourage the GASB to include the requirement that future tax abatements be disclosed as foregone revenues and either provide some reasonable guidance as to how to measure the amounts in this disclosure (i.e. should revenue foregone be based on current rates/assessments or projected rates/assessments, etc.) or require the financial statement preparers to disclose how they arrived at these estimates. This would be consistent with other GASB standards that require future year disclosures for long-term debt, infrastructure depreciation, pensions and other benefits. Readers of financial statements are interested in how long a government has committed to reduce revenues through tax abatements.

### **Summary**

As stated above, we agree with GASB that financial statement users need information on the limitations governments face in generating revenues. We believe focusing on just selective type tax abatements without first informing readers of financial statements the full story of all the items that impact the gross assessment role is misleading.

We are concerned that much of the information being required for disclosure may not be readily available and will in many cases require extensive time and effort to obtain. We also believe the added cost and time associated with obtaining the necessary data and for auditors to verify will not be limited to the initial implementation period but will become an annual expenditure. Also, we recommend that GASB reconsider its decision not to require disclosure of future year commitments.

We strongly recommend GASB not finalize this proposed Statement until it has addressed the issues we have presented above.

**Conclusion**

This response has been presented to the NYS GFOA Board of Governors and approved for submission to GASB. Please direct any questions to Fred Shellard, Director of Professional Services at 518-465-1512, who can answer or direct questions to the appropriate NYS GFOA representative for follow up.

Sincerely,

John A. Savash II, CPA

Christopher Reino, CPA

Co-Chairs, NYS GFOA Accounting, Auditing and Financial Reporting Committee

cc: Charlene Kagel, Chief Auditor, Town of East Hampton  
 President, NYS GFOA

Maura K. Ryan, Executive Director  
 NYS GFOA

Approved by the NYS GFOA Accounting, Auditing and Financial Reporting Committee 02/12/2015

Approved by the NYS GFOA Board of Governors 02/18/2015

**Figure 1**

CATEGORY	NUMBER OF PROPERTIES	VALUE	% VALUE
Gross Assessment Roll	###	\$ XXX	100%
Less: Tax Exempt Properties	###	\$ XXX	%##
-- Federal Taxes	###	\$ XXX	%##
--State Taxes	###	\$ XXX	%##
-- Local Taxes	###	\$ XXX	%##
Tax Exemption Programs	###	\$ XXX	%##
--Senior Citizens	###	\$ XXX	%##
--Veterans	###	\$ XXX	%##
--Other Programs	###	\$ XXX	%##
Tax Abatement Programs	###	\$ XXX	%##
--Local Programs	###	\$ XXX	%##
--Imposed by Other Gov'ts	###	\$ XXX	%##
Taxable Assessment Roll	###	\$ XXX	% Taxable