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January 31, 2017

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 24-16ED
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean,

We, a group of individuals and organizations that are looking forward to using the data generated by Statement No. 77 on Tax Abatement Disclosures, comment here in strong support of the advice regarding treatment of Tax Increment Financing (TIF) disclosures as stated in Question 4.42 on Statement No. 77, Tax Abatement Disclosures, which reads as follows:

Q—A local government enters into an agreement with a real estate developer for the purpose of stimulating economic growth. Under the terms of the agreement, the developer will construct a building. The government will rebate to the developer incremental property tax revenues generated above a baseline established prior to the agreement, based on certain costs incurred by the developer related to the new building. The rebate to the developer is limited to no more than the amount of the incremental property tax revenues. Does this agreement meet the definition of a tax abatement in Statement 77?

A—Yes. Unlike the transaction described in Question 4.77 in Implementation Guide 2016-1, this agreement meets the definition of a tax abatement in Statement 77, although both may be labeled as a tax increment financing. The developer is promising to take the specific action of constructing a building for purposes of economic

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development, and the government is forgoing tax revenues to which it is otherwise entitled by returning some or all of the incremental property tax revenues to the developer. Although many tax abatements directly reduce the amount of taxes paid and do not involve the actual collection and return of taxes, the mechanism used to transact the abatement is not relevant to determining whether a transaction meets the definition of an abatement. Therefore, the fact that the government receives property taxes and subsequently rebates those tax receipts to the developer means that the government did, in substance, forgo tax revenues.

This advice is consistent with the terms of GASB Statement 77 in that it represents tax revenue diverted to a particular project, lowering revenue to an abating government, subject to an agreement. As such it merits inclusion as a tax abatement.

As stakeholders who intend to make good use of GASB Statement No. 77 data in our daily work educating citizens, students and policy makers, we continue to believe that the Statement would be more useful if it required clear revenue-diversion reporting of all TIFs, including those that are financed by debt. We understand GASB's position that details on debt-financed TIFs are already required in other sections of the financial report. But such data is burdensome to extract, particularly for those without sophisticated knowledge of accounting practices. If the intent of GASB was to better inform taxpayers, credit analysts, and policy makers of the tax revenue lost to abatements it would be more useful if all of those lost tax revenues were reported in one place under Statement No. 77.

Because Statement No. 77 disclosures do not enter the numerical section of the financial statements, including debt-financed TIFs in GAAP-compliant CAFRs' Statement No. 77 passage would pose no risk of double-counting, and would merely bring information already gathered for one section of the financial report into another section, the Statement No. 77 disclosure, where it may help to illuminate a more complete understanding of the totality of tax abatements. Given that TIF is the largest tax expenditure for economic development in some states, this data is salient.

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Another consideration is whether GASB's vital transparency improvement in Statement No. 77 might create unintended consequences: i.e., might such a bifurcation prompt some reporting entities to choose one form of abatement over another, because one particular form would not need to be reported jointly with other tax abatements. GASB's outstanding initiative in bringing more sunshine into the abatement process should not be allowed to be undermined by entities seeking to game the intent of transparency.

Thank you for your vital leadership in promoting greater transparency in tax abatement reporting. We are all committed to making the most of it.

Sincerely,

Greg LeRoy
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