

Government Finance Officers Association
International City/County Management Association
National League of Cities
National Association of Counties
U.S. Conference of Mayors

January 21, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 19-20E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

We are writing to you on behalf of state and local elected and appointed officials in response to the Governmental Accounting Standards Board's (GASB) Exposure Draft (ED), *Tax Abatement Disclosures*. This response was prepared jointly by the Government Finance Officers Association, International City/County Management Association, National League of Cities, National Association of Counties and U.S. Conference of Mayors.

We support the motivation behind the exposure draft on tax abatements. Public disclosure of economic development incentives such as tax abatement programs does provide additional information as to how a government conducts its financial business. However, we do not believe that the proposed standard will contribute to this desired outcome. The ED states that by following its proposed guidance, a financial statement user would be better equipped to understand the following, which would lead to improved financial reporting:

- 1) How tax abatements affect the government's future ability to raise resources and meet its financial obligations; and
- 2) The impact abatements have on a government's financial position.

We believe that neither of these goals will be accomplished through this proposal. Including only a disclosure about the abated tax revenue, without any mention of the return on investment analysis that preceded it or a discussion of the benefits expected as part of this agreement, only tells part of the story and would mislead, rather than inform, the users of government financial statements. In many cases governments enter into agreements containing tax abatements as a way to provide incentives for growth that, but for the agreement, would be unlikely to occur. If governments were to follow the proposed guidance, the disclosure would report that the government would lose revenue and, therefore, have a diminished ability to meet its obligations, when in reality, the agreement is expected to generate revenue. While we appreciate concerns regarding the auditability of this economic forecast, disclosing anything less is representationally unfaithful and disservices financial statement users.

Additionally, we believe that implementation of these standards will create significant challenges for many state and local governments. For example, governments may also be prevented from disclosing the amount abated by a non-disclosure agreement with the taxpayer or by law. In addition, income tax abatements would require disclosure, contrary to state law, of what is often considered confidential information. For governments with few abatements, simply disclosing the aggregate abatements would also mean disclosing this confidential information.

As stated earlier, we understand the value of disclosing economic development incentives, including tax abatements, to the public. However, we dispute that little information is publicly available on these programs. State and local governments prioritize their community goals and objectives, including those on economic development incentives, during their budget process. They present balanced budgets, which take into account these tax incentives, during budget forecasting and subsequent budget adoption. Additionally, some governments are required to file specific economic development reports with their states, which provide another publicly available disclosure. The budget, required economic development reports, and annual economic development reports often provide complete disclosure of both the incentive costs and their anticipated benefits.

While the treatment of tax abatements in the budget document, economic development document or another annual report could likely be improved to provide greater transparency, we strongly believe that these documents are the appropriate place for such information. Including tax abatement disclosures in an entity's financial statements would: 1) be difficult for many governments to implement due to the sheer volume of information; and 2) provide a misleading impression of the overall impact of a government's tax abatement programs by not taking into account the anticipated return on investment. We urge GASB not to proceed with the requirements of this ED, which we believe are more appropriately displayed in budget or economic development documents.

Thank you for your consideration of these comments.

Sincerely yours,



Jeffrey L. Esser
CEO and Executive Director
Government Finance Officers Association



Clarence Anthony
Executive Director
National League of Cities



Robert J. O'Neill
Executive Director
International City/County Management Association



Matt Chase
Executive Director
National Association of Counties



Tom Cochran
CEO and Executive Director
The U.S. Conference of Mayors