

From: KKRichmond
Sent: Wednesday, December 10, 2014
To: Director - GASB
Subject: Director of Research and Technical Activities, Project No. 19-20E

To the Director of Research and Technical Activities:

Your proposed revisions to the GASB to include tax abatement activities as a formal accounting measure is a strong step towards transparency in the field of economic development. And we are grateful for your work.

Our work of 30 years in both the public side and private side of negotiating and complying with subsidies of many kinds compel my comments to your proposals. I have offered testimony twice to the U.S. House Ways and Means Committee on enterprise zones and have offered testimony to each biennial Texas Legislative session since 1989. All of our clients are publicly traded companies and are predominately manufacturing and private hospital facilities. My professional work includes past Board membership on International Economic Development Council (IEDC) and currently on the editorial board of State Sales & Use Tax Alert and the IEDC Journal. Links to my credentials are in the buttons below my signature line.

On both sides of the negotiations, a forecast of foregone tax revenue is always part of the “deal” and the proposed tax subsidies on the private side is incorporated into the ROI, streaming into future years. We have never, never negotiated a single year term. In fact, we would have to really dig deep to recall a negotiated tax incentive deal that lasted only 12 months. So my first suggestion is to require future-years’ liabilities and not a single-year snapshot of lost revenue. We consider this prudent because most if not all economic development programs have created enormous future-year liabilities that must be accounted for in future years. Now some economic development agencies and departments do this exercise as a “side bar” but mandating that the revenue reductions be formally accounted for in future years, moves the abatement costs from the side bar the full table discussion.

Our second suggestion is to widen the definition of tax abatements to all forms of tax incentives. TIF’s are widely used and do present foregone revenue (or at least a redistribution) to the granting authority. PILOT’s in Texas are the sole means for abating school property taxes and represent HUGE numbers to the school districts.

The irony in this case is that you can bet your bottom donut that these out year estimates are deeply embedded in the formal agreement. So our point is that the numbers are there, but they are not transparent, because no entity forces the governing body to actually account for the tax incentive on a consistent formal basis. That is where your effort in Project 19-20E can create some real good for our economic development field.

Our bottom line is that both sides of the incentive negotiations already have future-year price tags already computed. One is for projected revenue loss (or redistribution) and the other private side has incorporated the same projections in their ROI for tax planning purposes and

indeed to sharpen their analysis of the project in net present value terms, which of course implies future tax supports. The information is already there, so there is no reporting burden to speak of, other than entering the numbers in a new line item for tax accounting purposes.

Three-quarters of all states even have laws that mandate the use of GAAP. A research brief published by GASB in 2008 found that even in those states that do not legislatively require it, 87 percent of the major municipalities in those states conform to GAAP. GASB is recognized as the official source of government accounting standards by the accounting industry, capital markets, and governments themselves.

Transparency in government is a good thing for all parties. Sunshine encourages honesty and it is encouraging that we have seen more and more data and discussion elements appear in digital city/county/school board meetings and documents posted on line. And that is a much better beginning than the “smoke filled rooms” of yesteryear.

In addition, much of our work includes the out-year compliance support documentation. Our contracts on behalf of our private sector clients usually last five years. So, we know for a fact that our clients take the long haul into consideration. And many times, we are asked how to account for these anticipated benefits and our clients take multiple approaches on their respective balance sheets. The good news is that our clients are working toward the requirements of the Sarbanes Oxley reporting, but your GASB changes in 19-20E, I hope, will promote consistency across the board.

Thank you for the opportunity to comment on your Exposure Draft and many more thanks for tackling this cornerstone issue in tax incentive accounting standards.

Sincerely,

Karin Richmond

Karin Richmond, Intelligent.Incentives., Inc.

512.970.4004 cell



Blood on the Threshold

a novel by Karin Richmond