January 29, 2015
Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft on Tax Abatement Disclosures

Project No. 19-20E

Dear Mr. Bean,

The United States Public Interest Research Group is a federation of non-profit, non-partisan public interest groups. We and our affiliated state groups have been a voice for consumers, and strive to advance best practices in a variety of policy areas.

U.S. PIRG is particularly committed to increasing transparency for state government spending. Since 2009 we have released an annual report that tracks states’ progress toward more transparent, checkbook-level expenditure made available online, free to the public. The report is titled Following the Money: How the 50 States Rate in Providing Online Access to Government Spending Data. Each year, public officials from over forty states provide us detailed feedback about our initial inventories of their online transparency portals, and a similar number participate in our yearly webinar about best practices. At least two states include getting a high score on our annual transparency report as an official performance criteria for the state finance office.

Through years of researching and releasing this report, we have found that, though states are moving toward greater transparency and more detailed budget disclosures, the lack of guidance and consistent standards poses an obstacle for many state governments. Many states have cited a lack of official standards as one of the chief reasons their tax abatement disclosures have lagged behind more general budget transparency efforts. Whereas all fifty states now have online transparency portals that provide access to contracting data with specific companies, only 38 states in 2014 had any such information, and often with very different levels of detail for different programs. One year when we also conducted this research for America’s thirty largest cities, we found the level and quality of tax abatement information even more lacking.

States and localities are in need of guidance and standards. Different economic development programs are administered by different agencies, and so a lack of standardized and codified accounting standards means that cross-agency communication about these programs is often a challenge. Faced with a lack of
certainty about what information to disclose and how to present it, public officials often fail to provide this basic information to taxpayers.

That is why we are writing to express our support for the proposed Tax Abatement Disclosure standards. With tens billions of dollars exchanged annually through economic development tax abatements each year, we applaud the board’s effort toward standardizing their sound accounting.

However, we would also like to address some passages in the Exposure Draft which should be amended in order to provide more comprehensive and encompassing information about economic development programs.

In one passage, GASB excludes what are known in economic development as “performance-based incentives” from the accounting standards. In these economic development expenditures, a company can be certified eligible for and earn a tax credit after performing a specific activity, like hiring more employees or investing in infrastructure. These types of expenditures are becoming more common, and, in fact, are often in the top five largest economic subsidies states provide. By providing tax credits only after the fact, government reduces its risk. The trend in economic development is beginning to lean heavily toward these performance-based tax credits, and to exclude them from the accounting standards is a serious oversight. These tax expenditures meet your stated criteria for tax abatements, and are becoming a significant proportion of overall state economic development spending. We urge you to specifically include performance-based incentives in your final standards, and require that programs structured in such a way are beholden to the same exacting accounting standards. Right now, since states don’t have guidelines for tracking their expenditures through these performance-based tax credits, the numbers go undisclosed to the public. By excluding these economic development programs from the accounting standards merely because the timing of the tax abatement is structured differently, the GASB would allow a significant and growing portion of state spending to go undisclosed and un-scrutinized by the public. The basic rationale for including this after-the-fact incentives remains the same for investors who would consider buying debt issued by a state or locality: the abatement represents a liability against income that is important for evaluating the credit-worthiness of the debt issuer.

Further, the GASB standards do not require recipient-specific reporting on tax abatements. In 2014’s Following the Money report, we called for recipient-specific reporting, and urged states to enact such reporting on their budget transparency websites. The information is material to risk analysis and government accountability. In order to truly analyze the efficacy of a tax abatement, it’s vital to know who is receiving it. Sometimes these economic development programs have externalities that are unaccounted for just by looking at the numbers, but they can be better analyzed when the recipient is reported transparently.

States are not unfamiliar with recipient-specific reporting for economic subsidies, and adding this requirement to the proposed GASB standards would not be especially burdensome to states. In our 2014 Following the Money report, our research found that only six states provided recipient information for all five of their largest subsidy programs, but many others provided recipient-level information for some of their subsidies. Standardizing this accounting practice, would, in fact, simplify this process for states by ensuring that all agencies responsible for the programs are tracking and reporting all of the same information consistently.
More comprehensive standards regarding performance-based incentives and recipient-specific reporting will help not just the public, but also help states better audit the performance of their own programs and more easily progress toward their own budget transparency goals. We hope that our above comments assist you in your ongoing deliberations about the GASB tax abatement standards. We would be glad to answer any follow-up questions or provide any further data that might be relevant to your discussion.

Sincerely,

Andre Delattre
Executive Director
U.S. Public Interest Research Group