

February 2, 2015

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: October 20, 2014 Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, *Tax Abatement Disclosures* [Project No. 19-20E]

Dear Mr. Bean:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC does not favor this proposal because it will add to the existing disclosure overload in the financial statements of state and local governmental units. Additionally, TIC believes that the ED as written is confusing in its application requirements. Finally, it is TIC's opinion that many governments will want to include information in the disclosure about assumed or expected economic benefits resulting from the tax abatement agreement. If allowed, disclosure of potential benefits would be very challenging to audit. If not allowed, the disclosure would only provide the adverse consequences resulting from the tax abatement agreement which would be misleading to an uninformed reader.

TIC supports an alternative approach of amending GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*, and requiring that the information be presented as part of the government's Revenue Capacity Information within the Statistical Section, not as part of the basic financial statements.

If the Board decides to proceed with the proposed standard as written, TIC has requested a number of clarifications and an extended effective date, as discussed below.

SPECIFIC COMMENTS ASSUMING THE BOARD FINALIZES THE ED AS WRITTEN

Scope Clarifications

TIC believes there could be some confusion regarding the scope of the ED. TIC has identified the following issues, which are discussed below, along with TIC's recommendations.

Traditionally, many governments have interpreted the term "tax abatements" differently than how it's defined here. The definition of "tax abatement" in paragraph 4 of the ED includes certain subtle criteria that many constituents are likely to overlook. Although the Basis for Conclusions provides some explanatory guidance about the nuances of the definition, TIC believes the guidance is misplaced and insufficient. Many governments already have their own definitions of a tax abatement agreement. If all of the explanatory guidance regarding the scope of the proposed standard is retained in the Basis for Conclusions, many governments will not realize that the proposed disclosures would not apply to all transactions that are called "tax abatements" in practice.

Tax abatements subject to this proposal must have certain characteristics to meet the definition, as stated. This added complexity warrants more coverage of the scope criteria within the body of the standard.

For example, tax increment financing (TIF) agreements are very common in certain states, and questions are likely to arise as to whether they need to be disclosed under the proposed standard. Certain states, such as Minnesota and Wisconsin, offer a variation of the traditional TIF agreement, commonly referred to as a pay-as-you-go TIF agreement. In Minnesota, these arrangements are almost the same as the State's tax abatement program, and TIC members are uncertain whether it would qualify as such under the stated criteria in the ED.

This variation may be described as follows: A governmental entity enters into a TIF agreement using pay-as-you-go financing. Under this technique, the developer borrows the necessary funds to cover the project costs. The governmental entity captures the tax increments and then sends them to the developer annually. The developer assumes the risk of tax increments not being sufficient to cover project costs.

TIC understands that the Board may decide that all TIF agreements, including the variation described above, should be excluded from the scope of the standard. If so, TIC recommends that an explicit statement to this effect be included in the scope section of the final standard. Without such guidance, many governments that enter

into TIF agreements may not realize that the Board did not intend for them to be disclosed.

To further clarify the scope of the proposed standard, TIC also recommends moving much of the scope guidance from the Basis of Conclusions to the body of the standard and adding examples to help governments and practitioners understand which types of tax-related agreements are within the scope of the standard. At a minimum, TIC believes paragraph B8, which states that the tax abatement agreement must precede the reduction of taxes and the fulfillment of the taxpayer's promise to act, is essential to understanding how tax abatements are being defined for purposes of this standard.

Disclosure Issues

Another issue that is not addressed in the ED is whether a right of offset can eliminate the need for disclosure. For example, in the state of Minnesota, revenue equalization laws give school districts additional levy authority and state aid to offset the lost revenue due to abatements. This raises the question whether the school district would be required to provide the proposed disclosures if the school district is ultimately held harmless. This is potentially a significant issue since the initial abatements could be quite material. TIC therefore requests that the final standard address this implementation issue.

As to the disclosure requirements in paragraph 5 and as mentioned in our General Comments above, TIC believes a common question from governments will be whether they can add disclosure about the estimated benefits to be derived from the abatement agreements discussed in the notes. TIC believes many governments will want to add to the required disclosures the "positive" effects of their abatement agreements (i.e., increased employment, increased sales tax revenue, etc.), especially since such provisions are frequently debated by elected officials in public meetings. TIC therefore recommends that the Board provide guidance on whether the "positive" aspects of these agreements would be permissible and, if so, how this disclosure should be presented. If the Board believes the "positives" should not be disclosed, this should also be stated in the final standard.

Effective Date and Transition

TIC is also concerned that the proposed effective date would allow an insufficient transition period for many governments that have many tax abatement agreements. (Paragraph B13 of the Basis for Conclusions indicates that almost 13% of governments have over 200 such agreements.) A considerable amount of time will be necessary for them to accumulate the information to prepare the disclosures in the initial year of implementation on top of the time needed to become familiar with the new standard and understand which arrangements meet the definition of a tax abatement. If the Board moves forward with this proposal, TIC recommends that the transition period be extended by an extra year to reporting periods beginning after December 15, 2016.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees