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GASB Proposes New Tax Abatement Disclosure Rule

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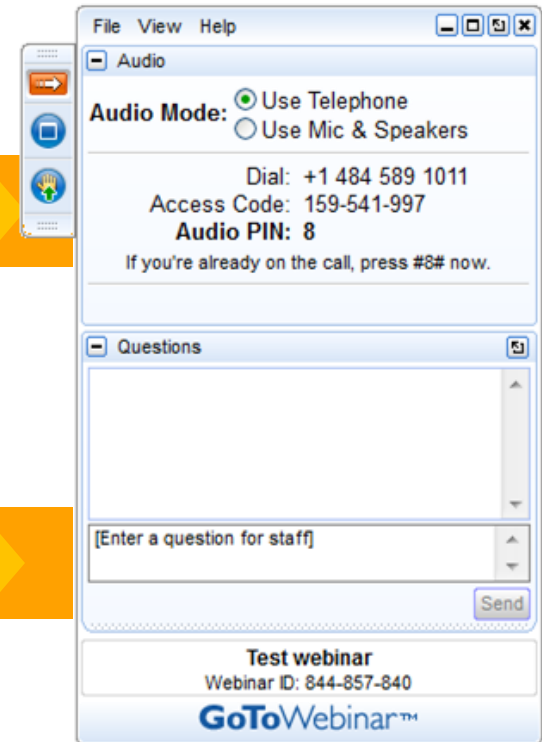
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Intro Tax Increment Finance WebCourse



December 9-10, 2014
Daily: 12-5pm (EST)

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Panelists

Rena Nakashima, *Moderator*

Vice President
BNY Mellon

Heidi Springer

Manager, Economic Development
New York Grant Company

Dean Michael Mead

Research Manager
Governmental Accounting Standards
Board

Greg LeRoy

Executive Director
Good Jobs First

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Rena Nakashima

Vice President
BNY Mellon
Los Angeles, CA

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Dean Michael Mead

Research Manager
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Norwalk, CT

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Tax Abatement Disclosures

Dean Michael Mead
Research Manager, GASB

The views expressed in this presentation are those of Mr. Mead. Official positions of the GASB on accounting matters are determined only after extensive due process and deliberation.



Objectives of the Proposed Statement

- The proposed Statement would provide financial statement users with essential information about tax abatement programs in order to better assess:
 - Sources and uses of financial resources
 - Compliance with finance related legal or contractual requirements
 - Whether current-year revenues were sufficient to pay for current-year services
 - Financial position and economic condition

Definition and Scope

- Tax Abatements v. Other Tax Transactions
 - Transactions that result in a government reducing the amount of taxes a business or individual would otherwise owe take many forms and often incorporate interchangeable language
 - Tax expenditure, tax credit, tax deduction, tax abatement, tax exemption
- The proposed Statement would apply only to transactions meeting this definition:
 - For financial reporting purposes, a tax abatement results from an agreement between one or more governmental entities and a taxpayer in which (a) one or more governmental entities promise to forgo revenues from taxes for which the taxpayer otherwise would have been obligated and (b) the taxpayer promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

General Disclosure Principles

- Disclosure information for similar tax abatements may be provided either individually or in the aggregate
- For all tax abatements, a reporting government would disclose separately (a) its own tax abatements and (b) tax abatements of other governments that reduce the reporting government's taxes
- The reporting government would disclose its own tax abatements by major program and those of other governments aggregated in total
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

Proposed Disclosures

- General descriptive information:
 - Name and purpose of the program and the taxes being abated
 - The authority under which taxes are abated
 - The criteria, if any, that make a recipient eligible
 - The mechanism for abating taxes (form and calculation)
 - Provisions for recapturing abated taxes
 - The types of commitments made by recipients of tax abatements
- The number of abatements granted during the reporting period and the number in effect as of the date of the financial statements
- Amount of tax abated in the current year
- The types of commitments made by governments in tax abatement agreements (other than to reduce taxes) and the most significant individual commitments

Effective Date & Transition

- Would be effective for periods beginning after December 15, 2015
 - In other words, fiscal years ending December 31, 2016; June 30, 2017; September 30, 2017; and so on
 - Early adoption of the final standards would be encouraged.

Let the GASB Know What You Think

- Read the proposal on www.gasb.org (under “Projects” click on “Documents for Public Comment”)
- Email director@gasb.org or mail to GASB, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856
- Reference “Project 19-20E”
- Tell us what you like and don’t like – and tell us *why*
- We are happy to answer questions – dmmead@gasb.org

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Greg LeRoy

Executive Director
Good Jobs First
Washington, DC

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GASB's Proposed Standard on Tax-Break Accounting

Greg LeRoy

Executive Director, Good Jobs First

Council of Development Finance Agencies

November 18, 2014 ~ Webinar

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Good Jobs First:

A Resource for State and Local Governments

- Many Tools @ www.goodjobsfirst.org
- Subsidy Tracker
- “Report Card” Studies
- Model Research and Publications
- Testimony, Training and Speaking
- Technical Assistance

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A Long Debate Continues

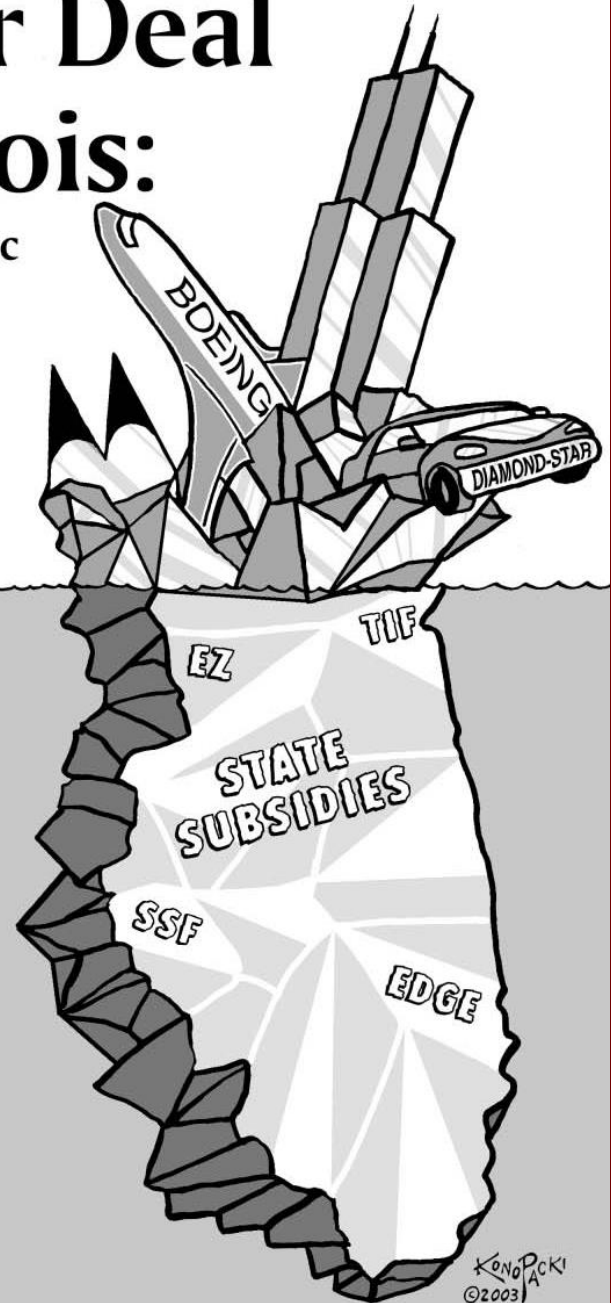
- GFOA task force in the late 1980s
- IEDC task force in the early 1990s
- Recurring flare-ups after, e.g., Mercedes-Benz (1993), Boeing (2003 and 2013)
- *Cuno* case (2004-2006)

Big Picture: Many Laudable Aspects

- The possibility of comprehensive cost data
- The ability to compare spending
- Passive revenue-loss accounting
- Associated obligations accounting

A Better Deal for Illinois:

Improving Economic
Development
Policy



By
Good Jobs First
January 2003

KONO PAKI
©2003

Covert
budget
erosion

Intergovernmental Free Lunch



What GASB's Proposal is NOT

- A “business climate” issue
- A bureaucratic burden
- An employer nuisance

Three Areas for Improvement

- Recipient-specific reporting
- Future-years' accounting
- Completeness

Recipient-Specific Reporting

- Best practice well established
- Necessary for risk analysis
- Better data would beget increased CAFR use

Bias against small, local entrepreneurs



Future-Years' Accounting

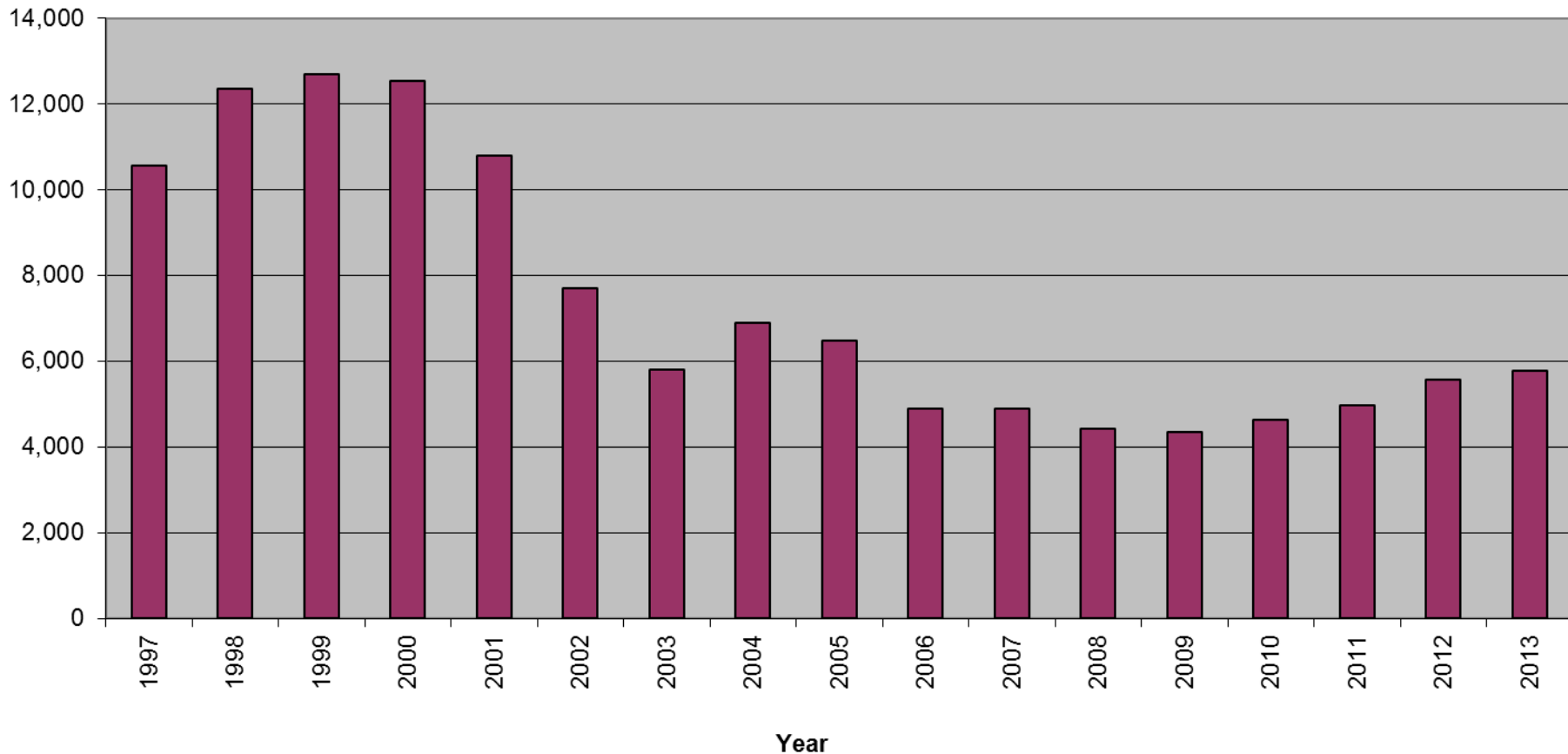
- Problem: many deals mortgage public-budget futures
- Highly relevant to financial-strength analysis
- Some costs are already legislated or estimated

Completeness

- Tax Increment Financing (TIF)
- Payments in Lieu of Taxes (PILOTs)
- Personal Income Tax Diversions
- Sales Tax Diversions
- Performance-Based Incentives

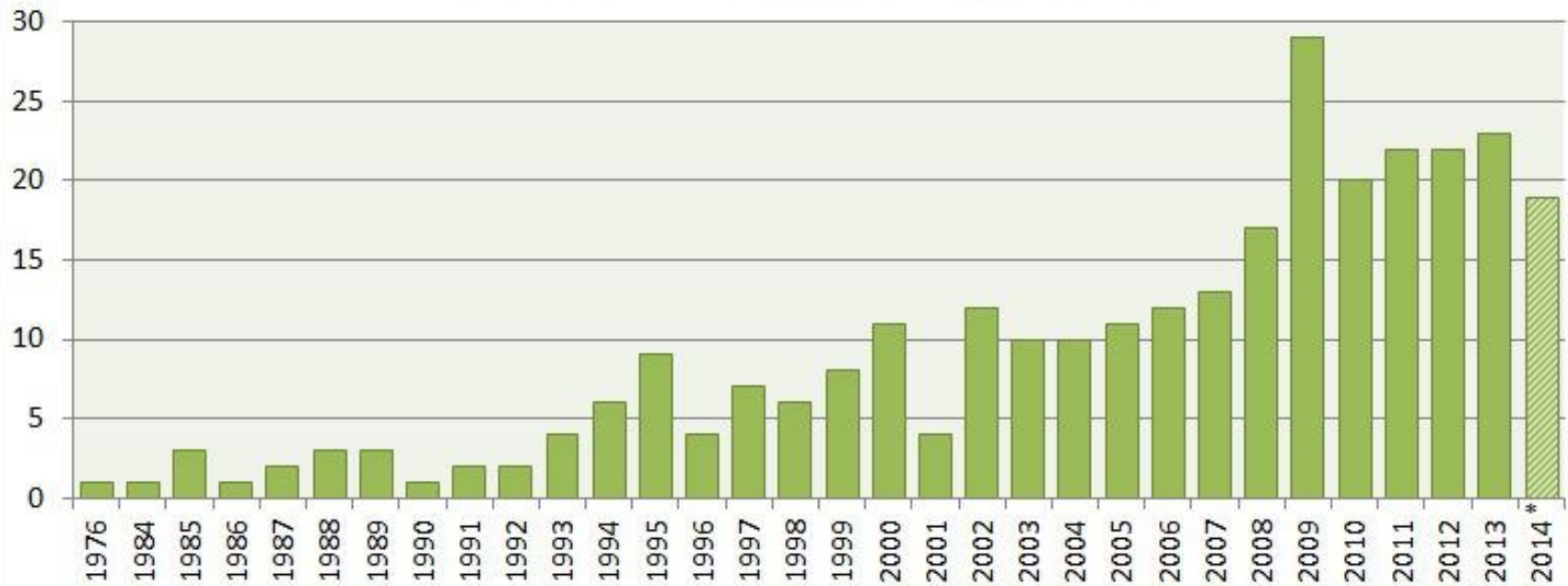
Deal Flow Still Depressed

**New U.S. Facilities and Expansions 1997- 2013
as Tracked by Conway Data, Inc.**



But Megadeals Are Surging

Number of Megadeals per Year

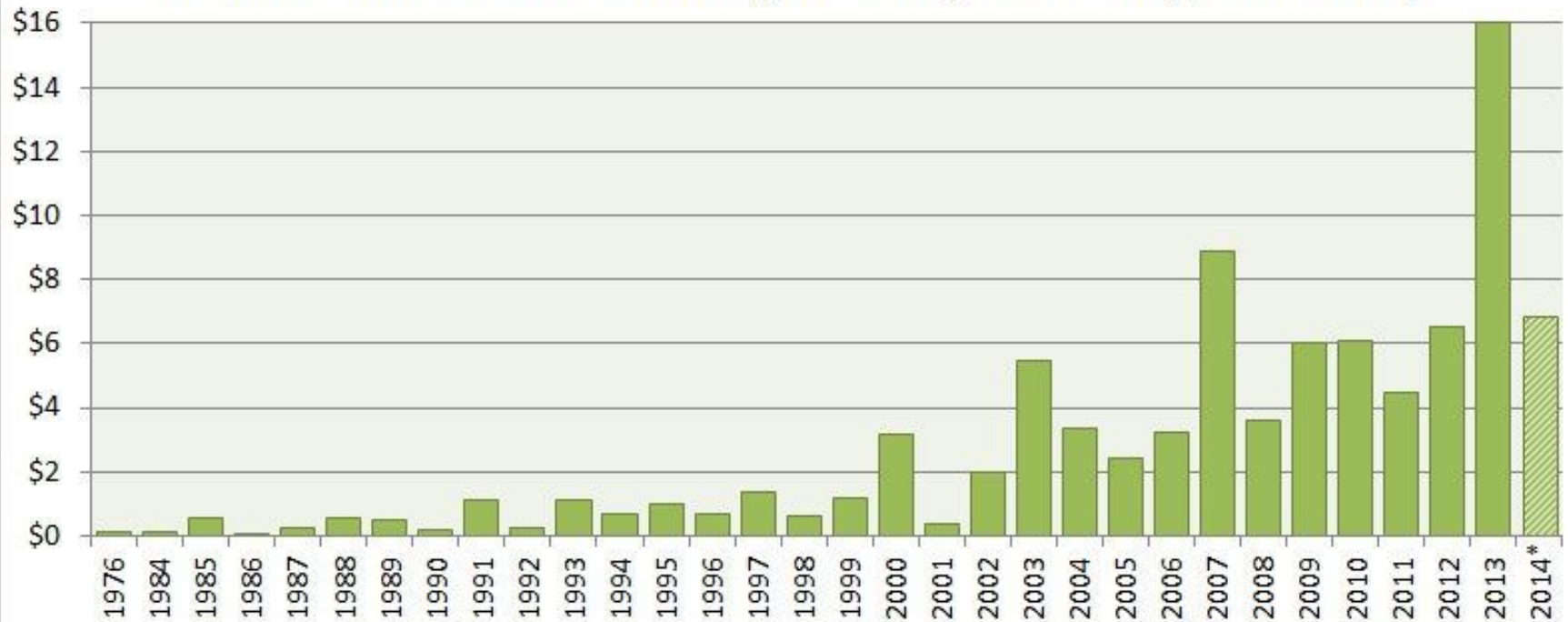


Updated: September, 2014

*2014 includes deals announced only on or before September 5th

And So Are Their Costs

Total Dollar Value of Megadeals per Year (\$ Billions)



Updated: September, 2014

*2014 includes deals announced only on or before September 5th

Austerity Mantra

“At a time when governments must make difficult budget decisions, spending to create jobs should be transparent, fair and effective.”

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Contact & Info

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goodjobs@goodjobsfirst.org

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Manager, Economic Development
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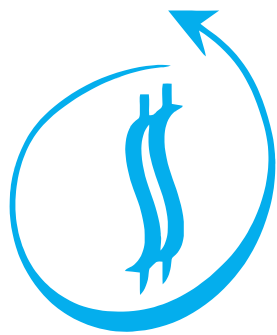
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NEW YORK GRANT COMPANY

Tax Abatement Disclosures Proposed GASB Statement

Heidi Springer, Vice President
November 18, 2014

Who We Are

New York Grant Company

is an award-winning private consulting firm
which specializes in obtaining and maintaining economic incentives
for clients in New York, New Jersey and across the US



Ann Kayman,
Founder and CEO



Marsha Parris,
COO & SVP



Heidi Shea
Springer,
Vice President

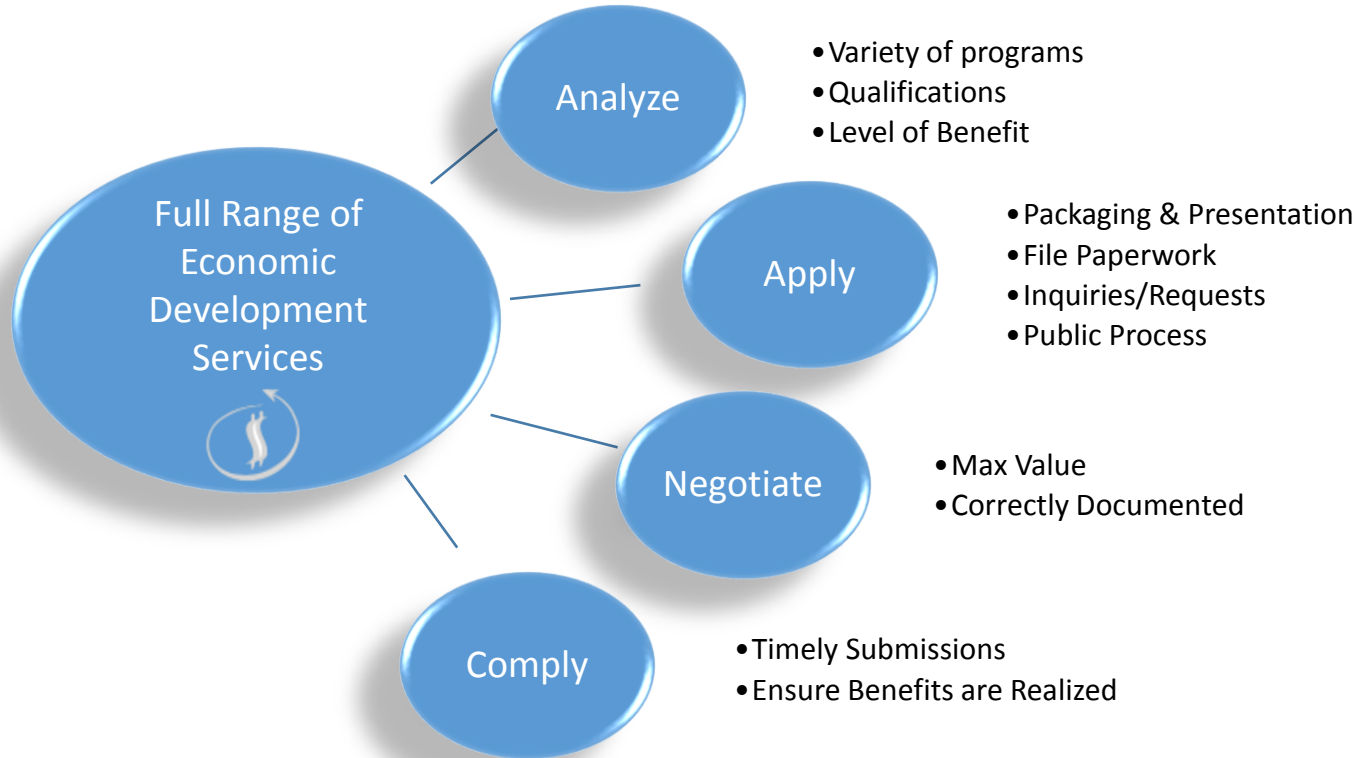
What We Do

NYGC has expertise across a broad range of incentives including:

- Grants
- Business income tax credits, exemptions, and reductions
- Real property tax abatements and exemptions
- Sales tax exemptions
- Energy discounts and efficiency rebates
- Alternative & low-cost financing

We work with economic programs resulting in single taxpayer agreements which are subject to the proposed disclosures by governmental entities, as well as programs which will not be subject to the GASB proposed disclosures.

Programs & Services



Ex. Brooklyn Manufacturer



150,000 sf
600 new employees
Renovations >\$5,000,000

Scenario #1: Company buys and renovates facility	
-Real estate tax benefits, sales tax exemptions, mortgage recording tax deferral, business income tax credits, energy discounts, efficiency rebates	\$ 14,915,559, over 5-25 years
Scenario #2: Company rents and renovates facility	
-Rent credits, business income tax credit, energy discounts, efficiency rebates	\$ 8,510,580, over 5-12 years
Scenario #3: Company rents and renovates in a building recently improved	
-Business income tax credits	\$ 4,894,580, over 10 years

Application Process



Apply

Application and/or review processes for programs resulting in
alone agreements (subject to GASB proposal), take into account a
variety of factors:

- Necessity of benefit/award (“but for” test/inducement argument)
- Desirability of proposed economic development project
- Benefit cost analysis – gov’t values the investments and job creation
 - Basis for eligibility
 - Caps benefit amount
- Public review
- Contractual obligations, incl. compliance reporting, clawbacks, etc

Compliance Requirements



Comply

Programs generally require attainment of performance requirements before benefits are realized & ongoing reporting

- Property tax abatements
 - Generally, dependent upon physical improvements to real property
 - Evidenced by invoices & receipts for materials and labor
 - Ongoing reporting to ensure continued use and occupancy
- Credits for jobs growth
 - Typically, as jobs added credits earned
 - Ongoing reporting of jobs w/ documentation
- Energy benefits
 - Similar requirements to evidence economic development goals are met

Key Take-Aways



- Many types/sizes of companies take advantage of economic development programs
- Public disclosure/review process often exists for benefits resulting in an agreement between gov't and a taxpayer
- Gov't accounting of abatements and related commitments can be reported and often are
 - Consider reporting the benefit in relation to the positive economic impact of the project
 - Clear reporting standards w/ implementation in a reasonable timeframe to adapt systems
 - Should NOT require additional disclosure of names/addresses of taxpayers
 - Should NOT result in additional compliance burden for taxpayers

Questions?



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www.nygrants.com

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Tuesday, December 16 @ 1:00 pm EST

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