Letter of Comment No. 175
File Reference No. 19-20E
Date Received: 1/8/2015

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

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

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), *Tax Abatement Disclosures*. We generally agree with the ED proposals. We agree with the board's conclusion that "the prevalence of tax abatements among state and local governments and the magnitude of the dollars involved underline the importance of information about these agreements to assessments of interperiod equity, sources and uses of resources, financial position, and economic condition." Our general and specific comments are below.

The proposed disclosure requirement is a modest but welcome addition to transparency in public expenditures. So far as we are aware, Tennessee presently has no comparable requirement of aggregate reporting of abatements, although we voluntarily post a summary of annual reports required of abatement recipients. Examples of these reports include those required per Tennessee Code Annotated (TCA) 7-53-305 of industrial development board lessees, which is the largest category of local property tax abatement in Tennessee. No city or county, so far as we are aware, discloses aggregate data for these abatements although interested persons could reasonably estimate annual county data using our posting at http://www.comptroller.tn.gov/SBOE/idbsumm.asp.

The only suggestion we offer pertains to the DEFINITION OF ABATEMENT, which we believe should be revised to include the effects of tax increment financing (TIF) programs. The present definition refers to 'reduction in taxes' and TIF, of course, is technically not a reduction in taxes collected, but a diversion of taxes from normal budgeted purposes. If the diverted tax ends up funding public infrastructure (e.g., TCA 13-20-202 & 13-20-205), the disclosure should be accounted for separately from taxes diverted to economic development projects (e.g. TCA 7-53-312 & 7-53-314) or for general economic development purposes. As with more traditional abatements, Tennessee requires project level reporting of TIFs (TCA 9-23-106), but no aggregate reporting exists that might enhance the value of government financial statements. Thus, we recommend the following revision to the tax abatement definition/description (summary, ¶4, &

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B12): "For financial reporting purposes, a tax abatement is a reduction in **<u>or diversion of</u>** taxes generally resulting from an agreement between one or more governmental entities and a taxpayer **<u>(individual or an entity)</u>** in which (a) one or more governmental entities forgo tax revenues that the taxpayer otherwise would have been obligated to pay and (b) the taxpayer promises to take a specific action that contributes to economic development or otherwise benefits the government(s) or its citizens." We suggest clarifying in ¶4 when referring to "taxpayer" that a specific taxpayer includes both individuals and entities (as indicated in ¶B6).

For ¶5e, ¶B17, and ¶B26, we believe the board should clarify that the government reporting such tax abatements in the note disclosures should ensure that the information presented is updated for any significant changes to prior years. Thus, we suggest that the remaining amounts to be abated in future years should be part of the annual assessment during the financial reporting process, and thus the disclosure would be modified to reflect outstanding abatement "obligations."

For ¶B24, we suggest the board consider including additional reasons for not requiring the recipient's name be disclosed. For example, there is the potential of violating federal law related to protected personally identifiable information (PPII), that is privacy laws. On the other hand, the recipient's name could be a matter of public record related to the tax abatement transaction (e.g., State public records laws).

For ¶B28, we agree with the board's conclusion; however, we suggest that disclosing the weighted average maturity (similar to debt investments) would be more useful than a range or nothing. Because the information is already available, the calculation would appear to be rather simple.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit