

December 15, 2014

Sent via email to: [director@gasb.org](mailto:director@gasb.org)

RE: Project No. 19-20E

Director  
Governmental Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Dear GASB Director:

We write in strong support of GASB's Exposure Draft on Tax Abatements. We also write to urge you to include tax increment financing (TIF) in your definition of tax abatements. We believe it effectively conforms to what you intend to capture. It is also highly prevalent (49 states and DC) and of great financial magnitude. However, because TIF technically varies from one of your definitional criteria— instead of a facial tax reduction, it is a tax diversion that often directly benefits the payer of the diverted taxes, thereby using tax revenues to reduce non-tax costs that the taxpayer otherwise would have had—your new standard could miss an enormously costly abatement that has repeatedly proven to be of major fiscal significance.

As background on our credentials on this subject:

The Iowa Policy Project is a 501(c)(3) nonprofit, nonpartisan organization founded in 2001 to produce research and analysis to engage Iowans in state policy decisions. IPP focuses on tax and budget issues, economic opportunity and family prosperity, and energy and environmental policy. With the Child and Family Policy Center, IPP also serves as the Iowa Fiscal Partnership, created to be a reliable information source on the state's fiscal policy issues, offering policy solutions that value the contributions of Iowa's low-income and working families, increase economic opportunity, and reduce inequality. Research Director Peter Fisher is an economist, Professor Emeritus at the University of Iowa, and the author or co-author of three books: two on economic development incentives (both commissioned and published by the Upjohn Institute) and another on state "business climate" rankings (published by the Economic Policy Institute).

The Illinois Education Association, founded in 1853, is an affiliate of the National Education Association. Our 130,000+ members are elementary and secondary school teachers, higher education faculty and staff, educational support professionals, college students preparing to become teachers, and retired educators. We have one thousand collective bargaining agreements; in negotiating those contracts we routinely utilize our employers' comprehensive annual financial reports (CAFRs) to assess their financial conditions. Our leadership is acutely aware of and concerned about the approximately \$1.2 billion diverted annually into TIF in Illinois, more than half of which would otherwise fund K-12 education and community colleges.

New Jersey Policy Perspective is a 501(c)(3) non-profit that provides research and analysis on important issues facing New Jersey. Fiscal transparency and tighter accountability for corporate subsidies have been central issues for us since our 1997 founding. Both before and since the program was massively deregulated in 2008, we have criticized TIF districts, which in our state are governed under the Economic Redevelopment and Growth (ERG) program. We believe New Jersey has by far the widest swath of abatement costs of any TIF program in the United States: ERG applicants have claim to up to 25 streams of revenue (15 state and 10 local).

Iowa has over 1,600 TIF areas, a number that has grown dramatically in the past 15 years. The deregulation of TIF, such that it can be used in not-actually-blighted areas and for non-revitalization purposes, is in full bloom in our state. In fact, only 11 percent of the valuation in TIF areas is now in areas with "slum and blight." We have TIF projects that subsidize market-rate single-family home developments surrounding golf courses. We have seen TIF used to finance fire stations, soccer fields, and city-owned hotels. TIF has been used to lure a department store across city lines. TIF in fact is the largest "economic development" program in the state, with \$300 million in diverted property tax revenue in FY2012 going to pay for TIF projects, representing 6 percent of all property taxes. Many of those projects are structured simply as rebates: the property owner pays the full taxes, but most are immediately rebated to the owner, for a period of 10 to 20 years. In some localities that have "TIFed" a lot of recent years' growth, TIF revenues account for the majority of property tax revenues and effectively allow them to shift tax burdens onto residents in the surrounding county. School districts saw \$123 million in school taxes diverted to city TIF funds in FY2012. To cover the school property taxes diverted by TIF, the state had to pay over \$51 million in additional state school aid last fiscal year, while school district taxpayers had to pay an additional \$72 million in taxes. TIF debt has been used to circumvent the constitutional ceiling on general obligation debt (5 percent of valuation), and has resulted in one aggressive TIF user incurring total debt over twice the city's supposed limit, while their bond rating has been slashed to Baa2.

In Illinois, we rank #1 as the state with the most local governments: 6,968. This creates a structural incentive for intrastate tax base competition, making the need for tax abatement transparency—including intergovernmental revenue effects—especially urgent. Illinois is also the second most dependent on local property taxes for education funding: revenues lost to TIF matter enormously to schools. Illinois now has more than 1,100 TIF districts and our TIF revenue losses, which have tripled since 2000, totaled \$1.2 billion as of FY 2008 (the last year of a full accounting)—a serious erosion of educational resources. TIF has become so controversial in Cook County that the Cook County Clerk, on annual property tax bills, now discloses the amount and percentage share of taxpayer's property taxes that are diverted into the TIF district, to our knowledge the only large U.S. jurisdiction to make such disclosures. (One in 10 property tax dollars in Chicago overall go to TIF; individual shares within TIF districts are often far higher.) As well, Illinois already has a law requiring localities to report TIF-based revenue losses annually to the state comptroller. The majority of localities comply: for instance, Chicago submits updates on 164 TIF districts. However there is no meaningful penalty for non-compliance: some 152 smaller municipalities failed to file their reports in 2013.

It would make city and county CAFRs far more reliable and accurate if they included revenue lost to TIF, and also detailed the future costs and duration of those losses (TIF districts last 23 years in Illinois and can get extended for 12 more years). As well, Illinois school districts will need such data to make their CAFRs more accurate. Given the magnitude of TIF-revenue losses in Illinois, and their profound effect on public education finance, it would be an enormous oversight if the GASB's final standard on tax abatement disclosures failed to cover tax increment financing.

New Jersey TIF programs were deregulated in 2008, and drastically changed in 2011 and again in 2013. Under the current iteration of the TIF program, the Economic Redevelopment and Growth (ERG) program, New Jersey has approved an estimated \$1.3 billion in future tax diversions in just over 5 years. Whereas most states' TIF programs are a "single-single," i.e., a single-government diversion of a single tax (usually the local property tax) and some add the local increment of the sales tax, our RAD program has claim to 25 revenue streams: 15 state and 10 local. They include incremental payments in lieu of taxes, state personal and corporate income taxes, payroll and wage taxes, lease payments made to the municipality, sales taxes, hotel taxes, 95 percent of the property tax increment, and income from operation of public facilities.

To reiterate our point about tax increment financing comprising a tax abatement as defined by GASB: TIF districts involve agreements between governments and taxpayers; governments agree to receive less revenue and taxpayers agree to perform quid pro quos for economic development or finance community benefits. Although taxpayers usually go on to pay higher taxes, with the incremental increase paying for the eligible costs of redevelopment in the TIF district (and/or community benefits), those TIF revenues typically reduce the taxpayer's non-tax costs (by paying for costs such as land parceling, environmental remediation, demolition, and/or planning). They may also improve the taxpayer's property value by enhancing infrastructure and surrounding public amenities. And, as allowed in many states, TIF proceeds may service private-activity debt. Finally, they may be paid as a cash grant or tax rebate.

Sincerely,



Dr. Peter Fisher, Research Director  
Iowa Policy Project

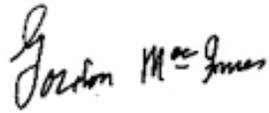


Audrey Soglin, Executive Director  
Illinois Education Association



Jim Reed, Director of Government Relations  
Illinois Education Association



A handwritten signature in black ink that reads "Gordon MacInnes". The signature is written in a cursive style.

Gordon MacInnes, President  
New Jersey Policy project

