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Date: 11/19/2014 5:59:18 PM
Subject: ED & SALT LS: GASB and disclosure of state tax incentives (Part 1)

Tax-break arms race spurs push for deal disclosure

TUESDAY , NOVEMBER 18, 2014 - 11:36 AM

"A logo sits on the wall of a Bridgestone automobile tire as it stands on display at the...

By William Selway and Romy Varghese
Bloomberg News.

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WASHINGTON — Nevada's Storey County gave up tens of millions of dollars in property taxes for Tesla Motor Inc.'s battery factory. Bay City, Michigan, granted a half-century break to General Motors Co. Nashville extended $50 million to keep the world's largest tire company from leaving.
Nowhere will the costs appear on the books for bond investors or taxpayers to inspect — for now.

U.S. accounting overseers are moving to require states and localities to disclose the billions of dollars in tax reprieves doled out each year to lure factories, filmmakers and corporate headquarters. With cities hungry for new jobs after the recession, such subsidies have proliferated, ceding cash that could be used the next time the economy stumbles.

"These represent significant amounts of money, but you wouldn't know that by looking at the financial statements," said Dean Mead, who's working on proposals for the Governmental Accounting Standards Board, the Norwalk, Connecticut-based organization that sets rules for financial reporting.
"It's effectively a self-imposed limitation on how much money the government can raise," he said. "That's relevant to someone who wants to know whether the government is going to have sufficient revenue to make debt-service payments."

The disclosure push is advancing as states and cities emerge from the deepest fiscal crisis since the Great Depression, with strains severe enough to send cities, including Detroit, Stockton, California and Central Falls, Rhode Island, into bankruptcy.

Howard Cure, head of muni research in New York at Evercore Wealth Management, which oversees about $5.2 billion, said current financial reports give investors little to gauge how much subsidies have whittled away at a community's tax base.

"It may not be a significant portion of a city's risk or liability," he said. "But sometimes it could be significant. There's no way of knowing."

Kenneth Thomas, a political scientist at the University of Missouri-St. Louis, estimates that states and local governments by 2005 were giving out about $50 billion of investment incentives a year.

Since 2008, states and municipalities have agreed to more than 150 corporate-subsidy packages worth at least $64 million, according to Good Jobs First, a Washington-based non-profit that questions whether the perks are warranted.

Last week, Nashville, Tennessee, announced a $50 million deal, including a 20-year property-tax exemption, to persuade Bridgestone Corp. to move to a new building downtown. The tiremaker, which has its base for its Americas operations in the city, received "competitive offers" from several cities, Bridgestone Americas Chief Executive Officer Gary Garfield said in a statement.

"Because other places were willing to compete for the prize, there was a very real possibility that Bridgestone could have left Nashville if we didn't step up and make a compelling offer," Mayor Karl Dean said at a Nov. 11 event unveiling the deal.

Most states also provide subsidies to movie and television productions, which are eligible for about $1.4 billion of tax- credits each year nationally, according to an April report from California's Legislative Analyst's Office.

"It's really widespread," Thomas at the University of Missouri said of tax breaks. "Governments of every size have been willing to engage in this kind of behavior."

Storey County, with 4,000 residents, is among them. In September, Nevada lawmakers approved as much as $1.3 billion in incentives, including a 10-year property-tax exemption, to persuade Palo Alto, California-based Tesla to build the world's largest lithium-ion battery factory there. California, New Mexico, Arizona and Texas also competed for the project. In the 10 years after 2024, the factory is expected to pay $375 million in local property taxes, according to an analysis released by the governor's office.

Pat Whitten, the county manager, said he expects the municipality to come out ahead, even with the foregone money and costs associated with an influx of new residents, by convincing other companies to move in.

"We'd much rather have a half-full glass than no glass at all, because it's an exceptionally competitive world out there," said Whitten, whose county didn't do its own estimates for the deal's cost. "We don't even take the time to calculate the value of something we won't get."

The new rules would change that. Last month, the accounting board proposed requiring states and local governments to report in annual financial statements any tax breaks agreed to and information such as promises to build infrastructure for development. The group is soliciting comments on the proposal and may approve a rule by August.

The change may generate opposition. The board, whose rules are used by accounting firms that sign off on annual financial statements, has clashed with municipalities over proposals to disclose financial projections and overhaul their reporting of obligations to retirees.

Stephen Gauthier, who tracks accounting issues for the Government Finance Officers Association in Chicago, said the group hasn't taken a position, though he speculated that some officials will consider the measures redundant.

"There's a whole lot of disclosure we have now in the financial statements, so people will naturally ask whether this is necessary," he said.
Bay City, Michigan, with a population of 34,000 about 115 miles (185 kilometers) northwest of Detroit, has given 77 tax breaks to businesses, according to city assessor Stacey Bassi. The tally includes a 50-year exemption, approved in 2007, for taxes on equipment at a GM factory.
Fitch Ratings cut Bay City's bonds in July to A+, the fifth-highest investment-grade rank, citing a limited ability to raise revenue. George Martini, the city's finance director, said he wasn't sure how useful it would be for investors to know how much would be collected without the agreements because some development wouldn't have occurred otherwise.

"Every time you give one of those abatements, those dollars aren't available for the police department or the fire department," he said. Even with the lower tax rates, the deals could still provide the city with more money than it would have if businesses moved elsewhere, he said.

Paul Mansour, head of muni research at Hartford, Connecticut-based Conning, which oversees $11 billion in local- government debt, said Wall Street would welcome the disclosure.

"I'd feel more confident making investment decisions knowing this information because right now it's really hard to get," he said. "We don't know yet how prevalent abatements are and other economic incentives until we see the disclosures. There could be more than meets the eye."

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