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GASB Statement No. 77: A New Tool for Strengthening Progressive Budget Research & Advocacy

Summary: A new public-sector accounting rule is beginning to reveal in unprecedented detail how corporate tax breaks granted in the name of economic development cut into the tax base for public goods and services. That is, revenues that are needed for education, public safety and infrastructure; investments that benefit all workers and employers. The new data also has the potential to reveal whether the “the poor pay more” or “the rich get more.” What share of revenues are lost to such corporate tax breaks? Are the costs going up or down? And how do giveaways granted by one government affect the revenues of others (i.e., passive losses)?

In short, this new accounting standard can empower progressive budget research and advocacy IF concerned citizens are alerted to its existence and the new data is accessible and analyzed. That’s why Good Jobs First has launched “Tax Break Tracker,” to collect the new data and help non-profits, academics, unions, journalists and others use it.

What is GASB and Why Does Its Statement Matter?

The Governmental Accounting Standards Board (GASB) is the professional organization that establishes and constantly improves standards of accounting and financial reporting for U.S. state and local governments. GASB’s rules are known as Generally Accepted Accounting Principles, or GAAP. Most states legally require at least some localities (cities, counties, school districts, etc.) to conform to GAAP. Many other localities conform to GAAP as a condition of federal funding or to get the best credit ratings (and thus the lowest possible interest rates) when they sell bonds.

For decades, however, there has been a big gap in GAAP: GASB had never set forth rules for any form of tax expenditures. This was a big omission, given that states and localities spend an estimated \$70 billion per year on economic development, mostly via corporate tax breaks.

What is GASB Statement No. 77?

Statement No. 77 on Tax Abatement Disclosures is an amendment to GAAP. (“Tax abatements” is GASB’s umbrella term for all kinds of economic development tax breaks: property, sales and/or income taxes.) GASB issued Statement No. 77 in August 2015 and it took effect for FY 2017 and beyond. Most governments close their FYs on June 30 and report spending 6 to 12 months later.

What Does Statement No. 77 Have to do with Inequality?

Equal access to good public services is fundamental to every American debate about economic opportunity, generational mobility and civil rights. Whether one is fighting for equitable and adequate funding for K-12, affordable tuition for public colleges and universities, broadening access to affordable healthcare, maintaining public transit service, ensuring good police and fire response times, or maintaining safe roads, clean water, sewage and other infrastructure—*everything* depends on a fair and sufficient tax base.

How Good Will the Data Be?

The data quality is crude. Each government that grants tax breaks only has to report one dollar figure per tax-break program per year. Despite many comments urging it to do so, GASB did not call for disclosure of company-specific recipients, future-year revenue losses, or even the number of tax-break deals behind the dollar figures. It did say that governments may voluntarily choose to disclose major recipients and some localities have done so.

Actively abating governments are not the only ones to report. Bodies that lose revenue *passively* (such as school districts losing revenue due to cities' and counties' actions) are also obligated Under Statement 77 to compute how much revenue they lose and report it.

Reporting governments put the revenue-loss data into the Notes section of their Comprehensive Annual Financial Report (CAFR)—not in the balance sheets. An estimated 50,000 local and state bodies (including more than 13,500 independent school districts) are expected to comply. There is an irregular quilt-work of state laws, administrative codes and federal rules surrounding GAAP compliance in CAFRs. Some states collect and publish CAFRs; others do not. Some states analyze or even “stress test” CAFR data to some degree; most do not. Some states provide GAAP training; most do not. Good Jobs First has prepared 51 state-specific “roadmaps” detailing how CAFR data flows.

Learn more (Tax Break Tracker, state “roadmaps” and more) @
www.goodjobsfirst.org/gasb

Bottom Line: Statement No. 77 is a Tectonic, Historic Opportunity for Reform

No matter what concerns anyone has about fair budgets and corporate tax breaks, the new data resulting from GASB Statement No. 77 is very significant—especially for those making opportunity-cost arguments (e.g., education, housing, infrastructure, public safety, or aid to small businesses) or have other concerns about the need for incentive reform.

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