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New Rule to Lift Veil on Tax Breaks.

Cities and states have plied companies with tax breaks for decades hoping to attract jobs and commerce. A new accounting standard will force many to disclose the total annual cost.

The rule approved Monday by the Governmental Accounting Standards Board, the municipal equivalent of the board that sets the standards for corporate reporting, will require government officials to show the value of property, sales and income taxes that have been waived under agreements with companies or other taxpayers. It kicks in starting next year.

Shelby County, Tenn., which includes the city of Memphis, waived about $48.7 million in property taxes last year, equivalent to 6.5% of its property tax receipts. Chicago channeled $372 million to nearly 150 special taxing districts in 2014, or $1 for every $13 of property taxes billed in the city, according to figures from the Cook County clerk's office, which collects city taxes. Before it was shut down in 2012, a major California tax-incentive program sent about 12% of statewide property taxes to redevelopment agencies—and more than 25% in some counties—often benefiting private industry.

Small towns can make big tax commitments as well. Belleville, Ill., with just 43,000 people about 20 miles east of St. Louis, sent $15.6 million of property- and sales-tax receipts—a big part of the city's nearly $97 million in total revenue—to its 19 special taxing districts last year, where the beneficiaries include developers that built shopping centers and residential homes. Special tax districts typically are created for private or public entities to finance, build or operate infrastructure or facilities.

The numbers show how the costs of discounted tax bills, special tax zones or outright waivers are piling up for local governments that in some cases have pressing problems with pensions and other budgetary issues. Deals like Nevada's promise last fall to give Tesla Motors Inc. up to $1.3 billion in tax breaks for building a battery plant there and the $8.7 billion of incentives Washington offered Boeing Co. and its suppliers to expand jetliner production in the state have long been subject to complaints that they increase the burden on existing businesses and individual taxpayers while creating too few jobs.

Now, investors, some government officials and others are becoming concerned that the combined effect of such deals over the years may be significantly limiting the financial flexibility of some cities. Governments rarely sum up the value of the tax breaks they have granted, and the accounting board worries that this leaves investors in the dark about the toll.

"These agreements reduce the amount of tax revenue you get, but you never see that, because it's not reflected in the accounting system," said Dean Mead, a research manager at the Governmental Accounting Standards Board. "To understand what they can collect, you need to know about things that would prevent them from collecting taxes."

Cities use a number of incentives to lure businesses or keep them there. They may reduce or even suspend tax collections of businesses for years, or transfer tax receipts directly to developers and employers. Another popular approach is to agree to spend any tax revenue from projects to improve the surrounding areas. That spending then benefits the companies that set up shop, directly or indirectly.

The choices can be difficult, because cities have to compete against rivals in neighboring states for investments that could create jobs. If they don't bid aggressively, they could lose out entirely. But being too aggressive means missing out on tax revenue.

"Anything that gives more transparency to what a government is doing and what is behind government finances, I'm all for it," said Hugh McGuirk, head of mutual-fund company T. Rowe Price Group Inc.'s municipal-bond team. "If we find out that, of the potential tax revenue, they're only realizing 60%, versus another entity that's realizing 98% of potential, maybe they've been a little too generous with their tax incentives."

In Shelby County, Tenn., which competes with neighboring Arkansas and Mississippi for many industrial and commercial businesses, Memphis and other local governments have entered into more than 500 multiyear agreements with companies like Nike Inc., typically waiving 70% and often more of the property taxes that would otherwise be owed.

In a 2013 deal with Nike, Shelby County agreed to abate $30 million of property taxes over 15 years. That was on top of $28 million that Memphis had waived. In return, the sportswear company said it would invest $301 million to expand a distribution center and improve another facility, adding 250 jobs and $8.75 million in payroll.

Nucor Corp. paid just $300 in taxes last year on property in Shelby County that ordinarily would have been taxed at $1.3 million thanks to pacts that extend out as far as 2028. One, a 15-year deal signed in 2012, involved a promise by the steelmaker to add 27 jobs and invest $113 million in its facility there.

In January, a joint economic-development board for Memphis and the county voted to give Swedish home-furnishings retailer IKEA a combined $9.5 million in tax breaks over 11 years if it builds one of its stores in the county. An IKEA spokesman said the company plans to break ground this fall and open the store a year later. Spokesmen for Nucor and Nike declined to comment.

Absent such agreements, the county's overall tax rate could be reduced, said Shelby County Trustee David Lenoir, who collects the county's taxes, to about $4.07 from the current $4.37 per $100 of assessed property value. For a house assessed at $100,000, that would amount to a $300-a-year tax cut.

"It is a significant amount," Mr. Lenoir said.

County economic-development officials said the incentives have paid off. The joint city-county economic development agency that negotiates many of the tax-incentive agreements estimates that they have created or saved nearly 9,500 jobs and spurred $2 billion in capital investment since 2011, in the process generating another $715 million in tax revenue. The estimate includes partial payments by the companies and a computer model's projection of the taxes that will be generated by newly hired employees and the businesses they patronize.

Critics of economic-development incentives say such calculations are only as good as the assumptions that underlie them.

Chicago, meanwhile, has announced plans to eliminate some of the tax districts and freeze spending at others. In Belleville, Mayor Mark Eckert said the city's special tax districts are critical to its economic health. With neighboring troubled East St. Louis, Ill., Belleville has had to fight to retain car dealerships and other businesses.

THE WALL STREET JOURNAL

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Aug. 4, 2015 5:50 p.m. ET

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