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## Exploring the Impact of GASB 77

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## Katie Kramer

Vice President  
Council of Development Finance Agencies  
Columbus, OH

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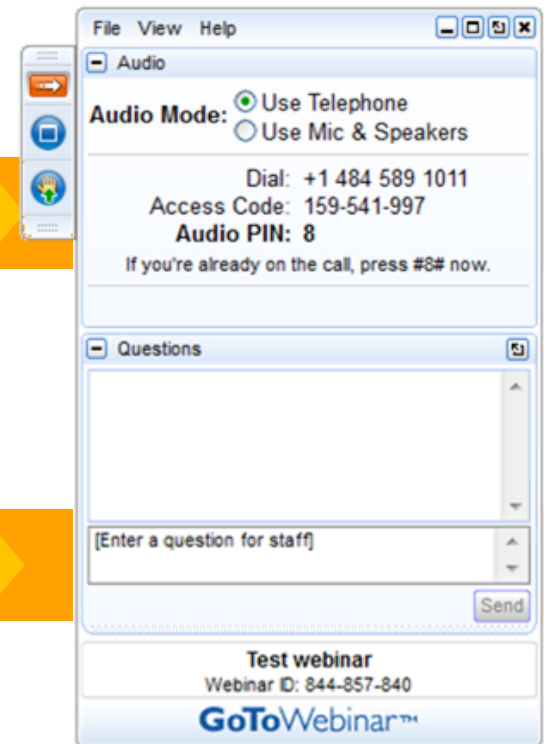


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## Intro Tax Increment Finance WebCourse



May 10-11, 2017  
Daily: 12-5pm (Eastern)

## Panelists

### **Rena Nakashima, *Moderator***

Senior Product Manager  
The Bank of New York Mellon

### **John Tysseling**

Consulting Director  
Moss Adams LLP

### **Ellen Harpel**

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### **Pam Dolan**

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# Exploring the Impact of GASB 77

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WEBCAST SERIES - MARCH 2017

ELLEN HARPEL  
SMART INCENTIVES



# About us

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Business Development Advisors  
is an economic development  
consulting firm



Smart Incentives helps communities  
make sound decisions  
throughout the incentives process





# Why do we use incentives?

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**To achieve our community's economic development goals**

- Jobs
- Business Development
- Investment
- Downtown revitalization
- Brownfield redevelopment
- Quality of life and quality of place
- Strengthen tax base

Incentives are **not just about winning a deal**. Smart incentive use is always connected to a larger **economic development strategy**.

# What is driving interest in incentives disclosure?

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Disconnect between what economic developers believe they do and what others think they do

Growth in incentive use

- more programs
- more money
- more projects

Expectation for data-driven, performance-based accountability in government programs

# Fundamentals of reporting & disclosure

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## Transparency

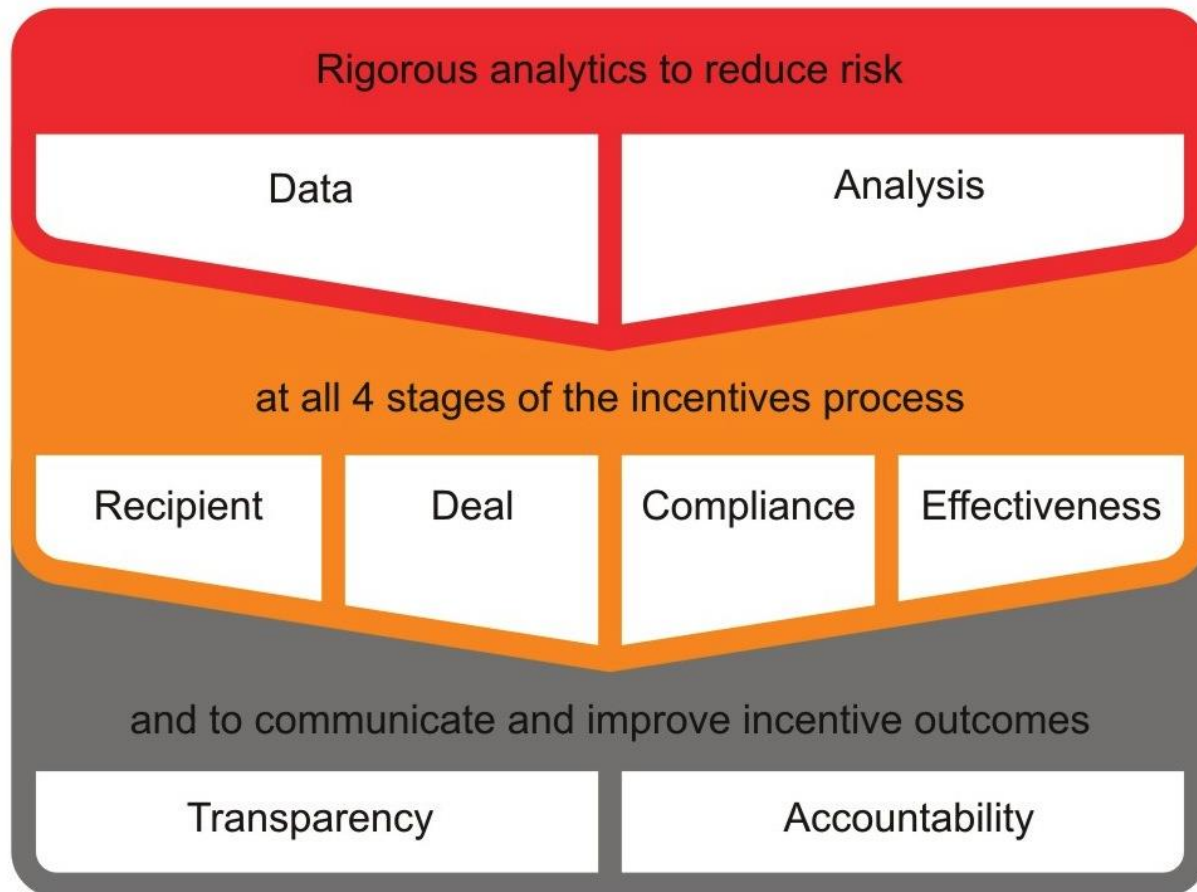
- How much are we spending?
- Who is receiving incentives?

## Accountability

- What are we getting out of our incentives spending?
- Do our programs help us achieve our goals in an effective and efficient manner?

# Reporting is part of the incentives process

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# Introduction to GASB 77

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Requires disclosure of financial information about tax abatement agreements between individual taxpayers and governments

- Guidance is limited to tax abatements – does not include all tax expenditures or other forms of assistance to businesses
- Not limited to tax abatements for business attraction/expansion

Why? To make transparent the financial impact of transactions that can limit a government's revenue-raising ability

GASB is not directly concerned with the effect of tax abatements on economic development outcomes

In effect for financial statements for periods beginning after Dec. 15, 2015

# Three steps for economic developers

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Understand which tax incentives meet the GASB criteria for disclosure

Communicate with your government finance staff

Determine how to supplement the financial disclosure

- Disclosures will describe costs but not expected benefits of tax abatements
- Consider supplemental reports
- Be prepared for questions
- Engage and be a good resource

# Contact us

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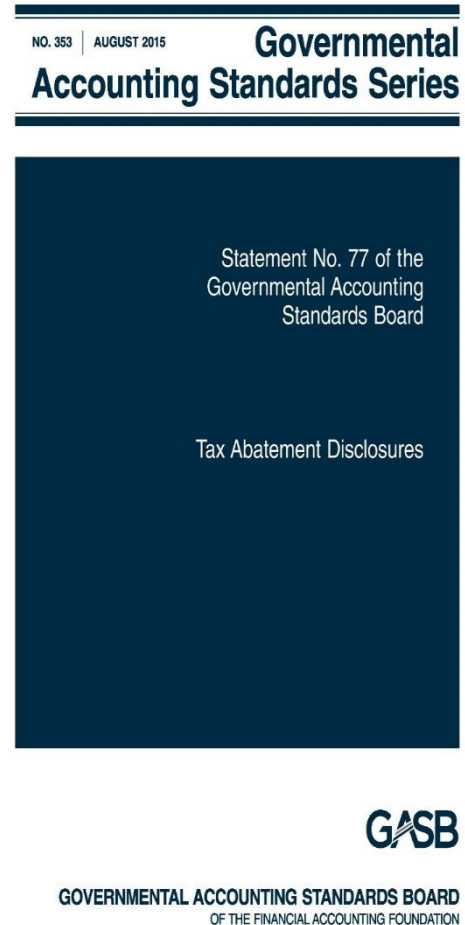
# Council of Development Finance Agencies

## **GASB Statement 77—Tax Abatements**

### **An Overview**

***The views expressed in this presentation are those of Mr. Bean. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.***

# Tax Abatement Disclosures: Statement 77



# What Is the Definition of a Tax Abatement?

- Statement 77 applies only to transactions meeting this definition:
  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:
    - One or more governments promise to forgo tax revenues to which they are otherwise entitled and
    - Individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

# Substance over Form

- The Statement does not include or exclude transactions based on their form or name – governments should apply the criteria contained in the definition
- Key points:
  - A principal distinction between tax abatements and other tax expenditures is the existence of an agreement with an individual or entity
  - The agreement generally is in writing but not necessarily
  - The agreement may or may not be legally enforceable
  - The agreement must precede the reduction of taxes and the recipient's fulfillment of the promise to act
  - The tax reduction may occur before, during, or after fulfillment of the promise – as long as it occurs after the agreement has been entered into

# What Are the General Disclosure Principles?

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

# How Should Individual Abatements Disclosures Be Determined?

- If a government chooses to disclose individual abatement agreements, it should select a quantitative threshold and disclose all agreements that meet or exceed the threshold
  - Any quantitative threshold used by the government to determine which agreements to disclose individually should be described in the note disclosure
  - A government may use one threshold for its own abatements and a different threshold for other governments' abatements
  - A government may disclose some of its own abatements individually but disclose those of other governments in the aggregate, or vice versa
  - Tax abatements below the threshold (if any) should be presented in the aggregate, as described in the Statement

# Summary of Required Disclosures

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	



# Summary of Required Disclosures

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓





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# Exploring the Impact of GASB 77

Presentation in the CDFA // BNY Mellon Development  
Finance Webcast Series

March 14, 2017

John C. Tysseling, Ph.D.  
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# AGENDA

- Introduction & Overview
- Identification
- Measurement
- Reporting
- Stakeholder Collaboration Issues
- Next Steps



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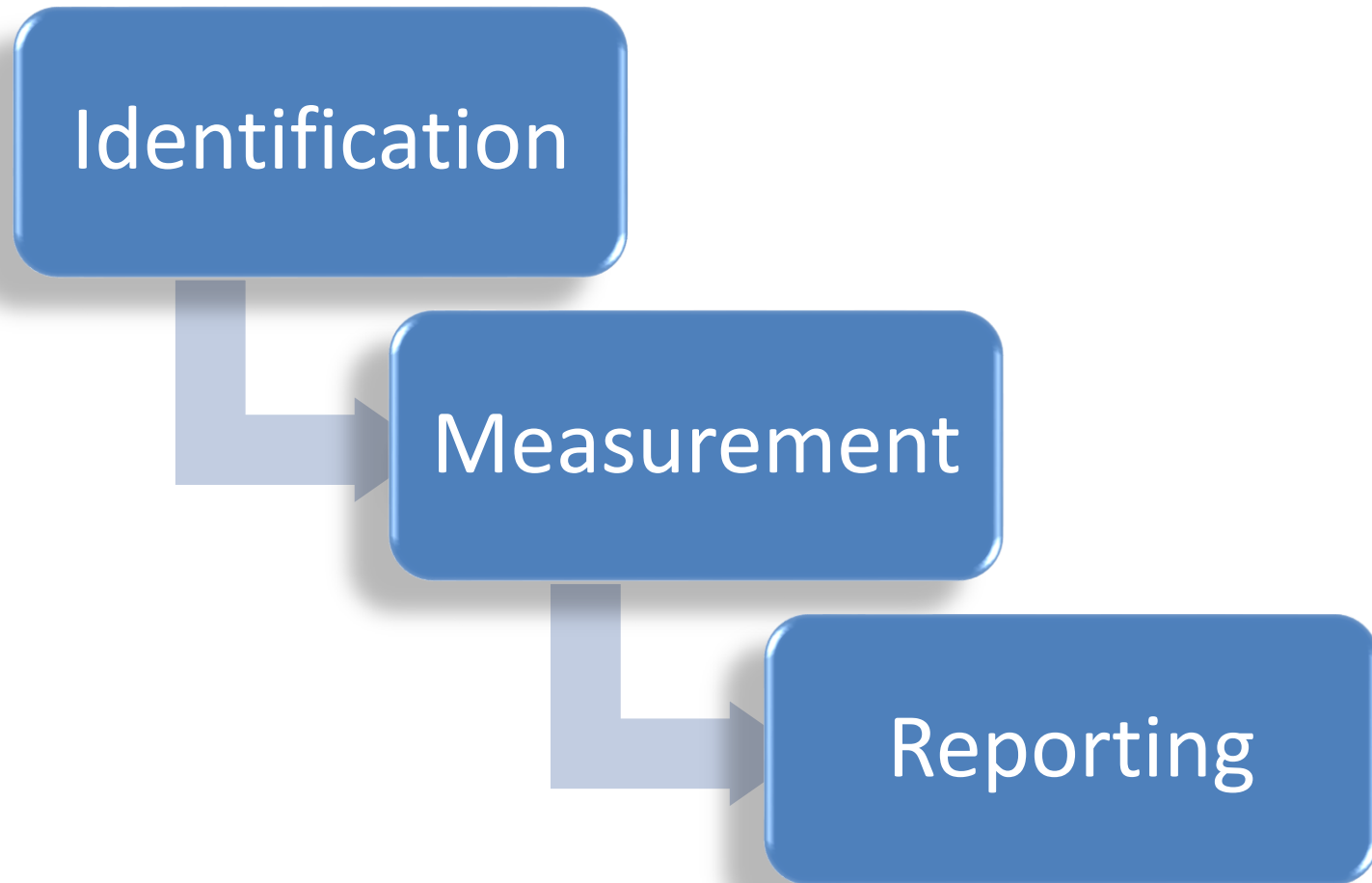
# GASB 77 TAX ABATEMENTS

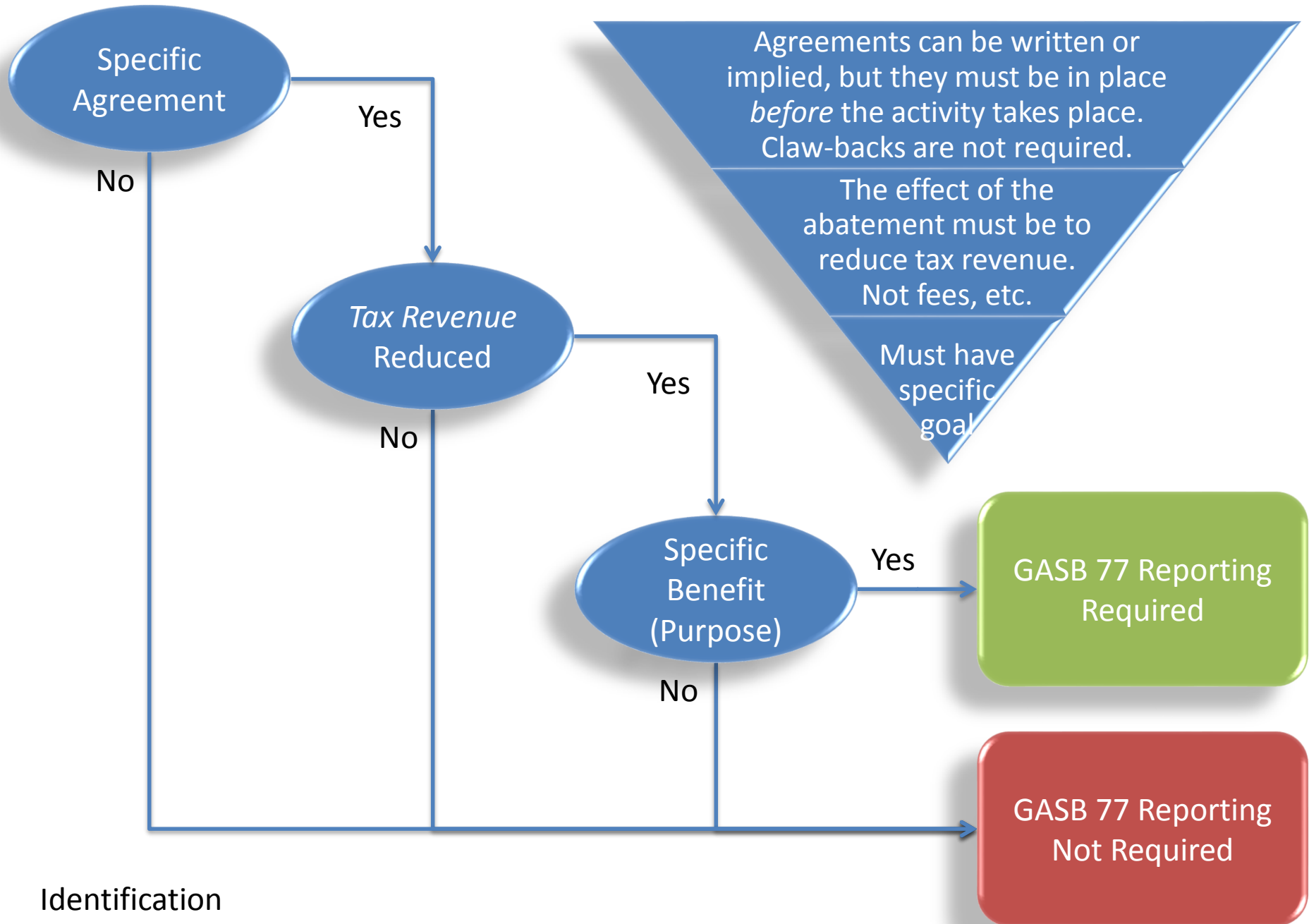
- Financial Statement (CAFR) Reporting of GASB 77 Tax Abatements
  - Brief descriptive info regarding specific abatement, for example:
    - Tax being abated, authority for abatement, eligibility criteria, abatement mechanism, recapture provisions for abated taxes, and types of commitments to receive abatement
  - Gross dollar amount of taxes abated (revenue impact)
  - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

# GASB 77 TAX ABATEMENTS

- CAFR Reporting of GASB 77 Tax Abatements made by *Other Government Entities*
  - Organized by government entity *entering into agreement* and specific tax abated, including:
    - Identification of government entering into abatement
    - Specific taxes abated, and gross dollar amount of taxes abated (revenue impact)
  - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

# DEFINING THE EVALUATION FRAMEWORK





Identification



# MEASUREMENT GENERAL STEPS

- Define the specific tax programs effected
  - Property tax, sales tax, etc.
- Gather necessary data
  - Assessed values, deduction amounts, mill rates, local sales tax rates (e.g., local options)
  - Some abatements will be more directly measured, some will require significant estimation
- Calculate/estimate foregone revenues

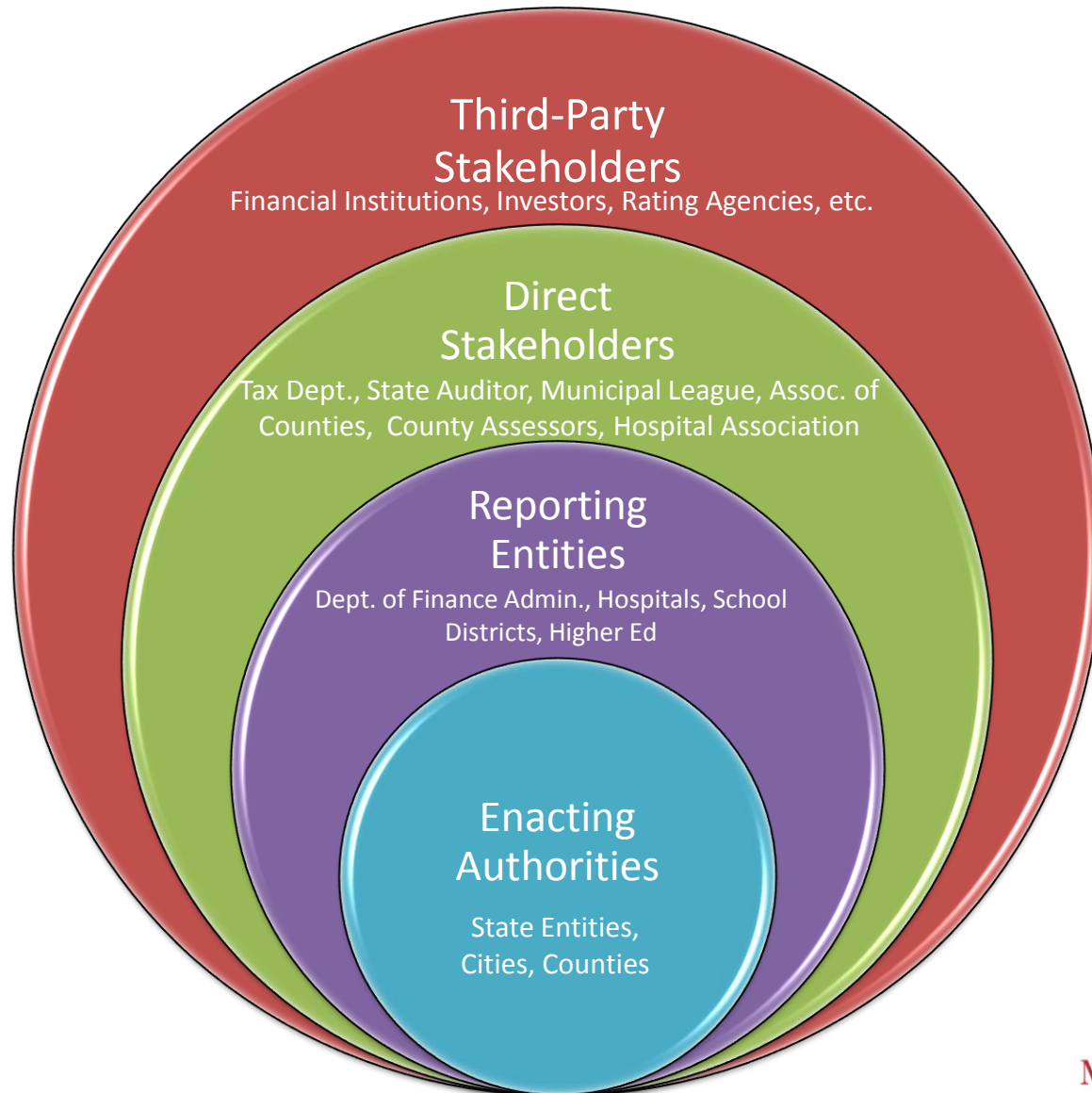
# MEASUREMENT ISSUES

- Proper valuation is key for property tax issues
- Sales Tax revenue costs are more complicated
  - Overlapping deductions
  - Location dependent rates/recipients
- Availability of tax abatement data:
  - Inconsistent/incompatible data system records
  - Availability of supporting detailed records (e.g., economic development “agreements”)
  - Timely data reporting to meet financial statement deadlines

# GASB 77 REPORTING

- Two broad categories of reporting
  - CAFR note
    - Disclosure required for abatements including those enacted by other governments
  - Intergovernmental Reporting
    - Disclosure to other entities impacted by abatements
    - Collaboration and Communication between enactors and other impacted entities will be key

# IDENTIFYING AND GROUPING STAKEHOLDERS



# THIRD-PARTY STAKEHOLDER ISSUES

- Consistency of GASB 77 reporting
  - Identification, measurement and aggregation
- Comparative risk evaluation tool
  - Evaluating revenue adequacy
  - Scoring of risk profile
  - Assessing risk relative to alternative investments
- Increasingly valuable as time-series profile and implementation becomes more consistent among reporting entities

## NEXT STEPS?

- Identify and fulfilment of various roles for stakeholders – resource commitments
- Timing and communication issues related to reporting (e.g. data collection and analysis)
  - You can't start too soon!
- Coordination/collaboration between stakeholders

# THANK YOU

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