



GASB Update Including GASB 77 – Tax Abatement Disclosures

November 2-3, 2017

City of Richardson
Finance



Standards Impacting Fiscal Year 2017



The Full Standards

- Effective for fiscal years ending 12/15/2016 or later
 - #77 “Tax Abatement Disclosures”
 - #78 “Pensions Provided through Certain Multiple-Employer Defined Benefit Plans”



The Full Standards (cont.)

- Effective for fiscal years ending 6/15/2017 or later
 - #74 “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”
 - #80 “Blending Requirements for Component Units – an amendment of GASB Statement No. 14”



The Partial Standards

- Elements are effective for fiscal years ending 12/15/2016 or later
 - #79 “Certain External Investment Pools and Pool Participants”
- Elements are effective for fiscal years ending 6/15/2017 or later
 - #73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GSAB Statements 67 and 68”
 - #82 “Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73”



#77 – “Tax Abatement Disclosures”



The Basics

- Tax Abatement Definition:
 - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:
 - The government(s) promise to forgo tax revenues in which they are otherwise entitled and
 - The 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 government(s) or their citizens



The Fine Print

- **Substance**, not form or title, is the **key factor**
 - Doesn't matter if you “abate” up front or rebate after the fact
- Covers agreements entered into by someone else that reduces your revenue
 - Other governments or component units



What's Required

- Disclose separately your own tax abatements and those that are entered into by other governments which reduce your revenues
- Disclose your abatements by major program (which you define)
- Disclose those of other governments by the government and the type of tax abated
- For discretely presented component units, disclose as if your own if essential to fair presentation, otherwise, treat as another government's abatements



What's Required (cont.)

- Can aggregate disclosures or disclose individual agreements above a quantitative threshold you set
- Can have a different threshold for your abatements versus another government's
- Disclose any other commitments made to recipients of abatements
- If you can't legally disclose an abatement, you must disclose the specific provision of law which prohibits you from disclosure



Basic Implementation

- Take an inventory
 - Abatements (Texas style), 380 Agreements, and TIF Agreements are all fair game
- Determine which taxes are involved
 - Property taxes, mixed beverage taxes and hotel/motel taxes (no disclosure concerns)
 - Sales tax may require working with your auditor if limited to one or two agreements



Basic Implementation (cont.)

- Determine level of disclosure
 - The standard allows for aggregation by major programs or individual disclosure of agreements above a threshold that you choose
- Read the Comprehensive Implementation Guide
 - It's now GAAP and GASB almost always clarifies their standards through the Implementation Guides



Disclosure Considerations

- Some economic programs don't qualify as "abatements"
 - Fee waivers (development fees, utility charges)
 - Debt service on TIF bonds
 - Cash payments (one-time or recurring)
- You can ignore these, but would a layperson think you're being misleading?



Richardson's Experience

- First Transparency Page debuted in 2010 (Comptroller Gold certification)
- Began separately discussing TIF Obligations in CAFR as part of debt disclosures since FY 2011
- Transparency Page achieved Comptroller Platinum status in late 2014



Richardson's Experience (cont.)

- Council adopted Financial Policy adds Economic Development Funding section in December 2014
 - Home Improvement Incentive Program
 - Tax Abatements
 - General Economic Development
 - Tax Increment Financing
- Tax Abatement disclosures included in FY 2015 CAFR



Richardson's Experience (cont.)

- Disclosure categories matched to four programs defined in Council Financial Policy
- Seven agreements have a sales tax element – amounts paid are lumped in with “tax rebates”
 - Someone could calculate total sales tax paid, but not individual company amounts



Richardson's Experience (cont.)

- All incentives are included in the CAFR disclosure
 - “Tax Abatements” as defined by GASB
 - Incentives that are not tied to taxes
- Draft disclosure presented to City Manager's Office in summer of 2015 for education/feedback
- Draft disclosure given to auditors upon CMO review



Richardson's Experience (cont.)

- No GFOA comments relating to Abatements for FY 2015 or 2016
- City debuted updated Transparency Site in March 2017
 - City received all five Transparency Stars from the Comptroller by June 6, 2017
 - Economic Development Star patterned after framework developed in the Tax Abatement disclosure process



Lessons Learned

- Building Inspection and Development Services departments did not track cumulative value of fees waived
- Feedback provided to City Manager's Office in shaping agreements
 - Awareness of “other commitments” that have to be disclosed
- No increase in Open Record Requests
 - None since debut of Economic Development page



#78 – “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”



The Basics

- Applies to pensions that:
 - Are not a state or local government pension plan
 - Are used to provide defined benefit pensions to state and local government employees **AND** employees of employers who are **NOT** state and local governments
 - Have no predominant state or local government employer
- Pensions are usually collectively bargained and referred to as “Taft-Hartley plans”
- Now excluded from requirements of Statement No. 68 and given basic disclosure requirements



#74 – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”



The Basics

- Updates accounting and reporting for OPEB plans to be more in line with pension plans
- Applies when a trust or equivalent arrangement exists
 - Contributions to the plan are irrevocable
 - Plan assets dedicated to providing benefits to plan members
 - Plan assets protected from creditors
- May issue separate financial statements or report as fiduciary fund of the sponsor government



What's Required (not comprehensive)

- Statements of Fiduciary Net Position and Changes in Fiduciary Net Position
- Note Disclosures
 - Detailed plan description
 - Information about plan investments
 - Details on OPEB liabilities (single employer and cost sharing plans only)
- Required Supplementary Information
 - 10-year changes in OPEB liability, funding stats



#80 – “Blending Requirements for
Certain Component Units – an
amendment of GASB Statement No.
14”



The Basics

- Requires blending of a component unit if the component unit is a legally separate not-for-profit corporation and the primary government is the sole corporate member
- Issue arose due to circumstances where governmental healthcare entities (treated as business-type activities) had bought not-for-profits to expand services



#79 – “Certain External Investment Pools and Pool Participants”



The Basics

- Certain requirements for investment pools that choose to measure investments at amortized cost were not effective until fiscal years ending 12/15/2016 or later
- Confirm with your pools that they are still fully compliant with Statement No. 79 if you are reporting your investments using amortized cost



#73 – “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”



The Basics

- Covers pension plans that were not under the provisions of Statements 67 and 68
 - Plans not administered through trusts or equivalent arrangements
- Includes any postemployment benefits provided through a pension plan other than health care or termination benefits
 - Retirement income paid directly by employer, supplemental death benefits, life insurance, disability benefits



**#82 – “Pension Issues – An
Amendment of GASB Statement Nos.
67, 68, and 73”**



The Basics

- Replaces “covered-employee payroll” for RSI disclosures with “covered payroll”
 - Covered-employee payroll was the payroll of employees that are provided with pensions through the pension plan
 - Covered payroll is the payroll on which contributions to a pension plan are based
- Payroll related to DROP programs would now be included, and payroll that is not part of pension calculations would now be excluded



The Basics (cont.)

- Employee contributions made by employers should be reported as plan member/employee contributions in disclosures and RSI
- When selecting pension assumptions, a **deviation**, as the term is used in Actuarial Standards of Practice, is not in conformity with GAAP
 - Effective with measurement dates on or after 6/15/17 (FY 2018 for most TMRS cities)



What's Required

- Payroll related measures in RSI should be restated if practical
 - For TMRS cities, should not be a change
- Contributions by employers on behalf of employees – report costs the same way you treat any other compensation for financial statement purposes and restate RSI statistics if practical
- Monitor actuarial reports to confirm no deviations in assumptions



Standards Impacting Future Fiscal Years



The Future Standards

- Effective for fiscal years ending 12/15/2017 or later
 - #81 “Irrevocable Split-Interest Agreements”
- Effective for fiscal years ending 6/15/2018 or later
 - #75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”
(Major Change)
 - #85 “Omnibus 2017”
 - #86 “Certain Debt Extinguishment Issues”



The Future Standards (cont.)

- Effective for fiscal years ending 6/15/2019 or later
 - #83 “Certain Asset Retirement Obligations”
- Effective for fiscal years ending 12/15/2019 or later
 - #84 “Fiduciary Activities”
- Effective for fiscal years ending 12/15/2020 or later
 - #87 “Leases” **(Major Change)**

