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GASB 77

Challenges and Opportunities for Greater Tax Abatement Transparency



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Celebrating 60 Years of International Partnerships

What Does GASB 77 Actually Require?

- Brief descriptive information
 - the tax abated
 - the authority under which tax abatements are provided
 - eligibility criteria
 - the mechanism by which taxes are abated
 - provisions for recapturing abated taxes, and
 - the types of commitments made by **tax abatement recipient**
- The gross dollar amount of taxes abated during the period (by program, not individual agreement);
- Commitments made by a government other than the abatement as part of the agreement.



Purpose of GASB 77

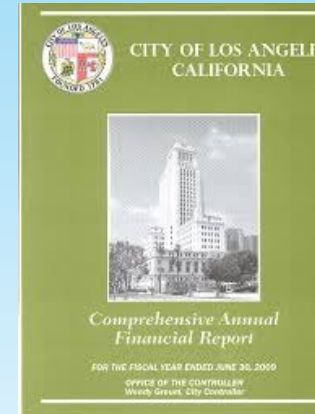
GASB provides **financial statement users** with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs to assess:

- whether current-year revenues were sufficient to pay for current-year services;
- compliance with finance-related legal or contractual requirements;
- where a government's financial resources come from and how it uses them; and
- financial position and economic condition and how they have changed over time.



Review of 1st Year of Implementation

- Review of papers and articles relevant to GASB 77 from organizations (e.g. Good Jobs First and the Government Finance Officers Association);
- Review of the GASB 77 filings in the Comprehensive Annual Financial Report (CAFR) of **15 sample cities**.



- Interviews and conversations with the GASB, government officials, and independent auditors involved in the preparation of GASB 77 disclosures.
- Note: GASB was contacted to obtain information on the implementation of the new standard. GASB did not have any information it felt it could share and said it generally does not review the implementation of new standards until several years pass.

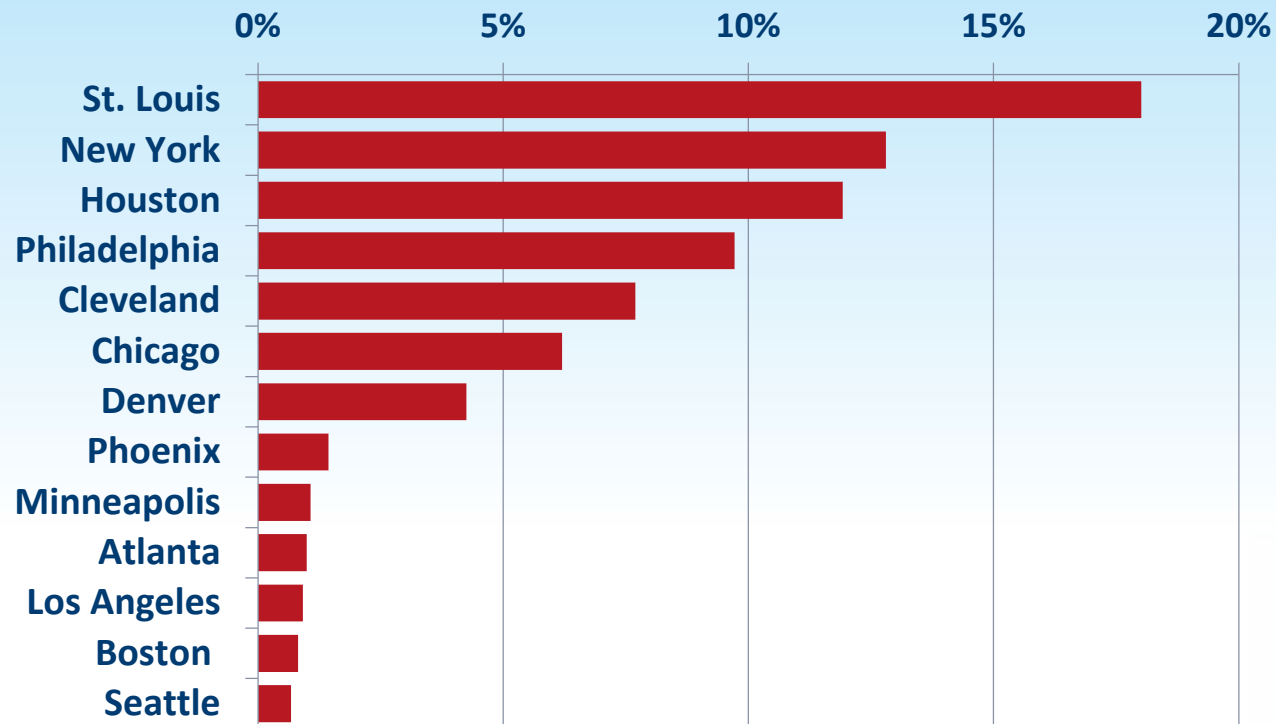
Sample of GASB 77 Disclosures

- All cities that have reported have done so on an aggregate basis, although in some cases individual projects are mentioned.
- TIFs appear to be handled differently among these cities. Some report TIFs as abatements when they are used to support debt service for infrastructure, while others do not.
- Charlotte and Miami did not make any GASB 77 disclosure (although Miami mentions GASB 77 implementation in a pre-audit PowerPoint presentation).
- Los Angeles is the only city to provide guidance on the total cost of the tax abatements for the entire period they are in place (both as a raw total and as a net present value).



Sample of GASB 77 Disclosures (cont.)

- The amount of taxes abated as a percentage of the total property tax levy was calculated as a potential benchmark.
- The results varied widely, with several cities abating less than 1% of their tax levies, while others including Houston, New York and St. Louis abating more than 10% of their levies.



Key Findings from GASB 77 Review

- Advocates for tax abatement transparency are well intentioned, but at the end of the day GASB 77 is an **accounting rule**.
- Accounting rules limit government officials on the type of information they report and where it is reported
- Other issues
 - Level of effort required to meet disclosure
 - Perceived lack of interest in its results (contrast OPEB and Retirement funding disclosure)
 - Issue of materiality – in many instances tax abatement amounts are small relative to tax revenue



GFOA View on GASB 77 and Abatement Reporting



- GASB Statement 3* states that the notes to financial statements should not include either:
 - **Subjective assessments** of the effects of reported information on...future financial position
 - **Predictions** about the effects of future events on future financial position
- Unfortunately, **both** are critical components in providing transparency on tax abatements.
- The Government Finance Officers Association (GFOA) has issued a best practice on tax abatement transparency and GASB 77 that reconciles the need for abatement transparency with the restrictions placed on financial statement reporting.

**GASB Concepts Statement 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*



GFOA Recommendations on Tax Abatement Disclosure

- Include Tax Abatement Disclosure in Financial Statement Transmittal Letter
 - Refer to other documents (e.g., budgets, economic development plans, etc.) where detailed information on tax abatement programs and projects
 - Explain how tax abatements factor into the budget process
 - Describe policies governing tax abatements, including development objectives and methods used to determine cost/benefit
 - Describe compliance process and those responsible
- Finance and Economic Development Staff Should Work Collaboratively on Reporting and Administration of Programs
- Establish Relationships across Governmental Entities (i.e. Cities, Counties, School Districts) to Coordinate Reporting on Tax Abatement Impacts



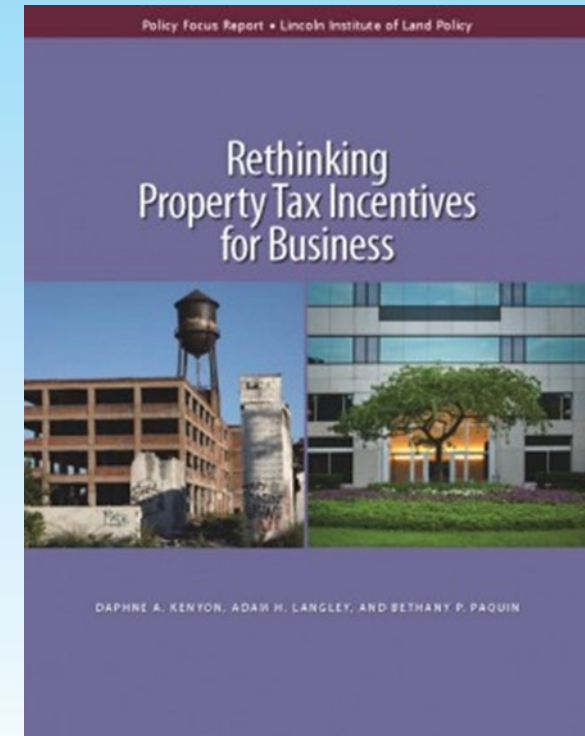
Additional Thoughts on Tax Abatement Transparency

- **Recommendations from Lincoln Institute Policy Focus Report**

“Publish information on incentives and conduct assessments. Taxpayers have the same right to information about tax expenditures as they do to data on government spending. The first step in giving voters useful information is to publish data on all the firms receiving property tax incentives.....the results can be used to reform or eliminate unsuccessful programs”

- **Post Tax Abatement Information on the Web**

- Agreements
- Program Summaries
- Results: Costs/Benefit Analysis



Thank you!

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