Municipalities Experiencing Growing Pains with GASB 77

Related Attorneys

Christopher J. Knezevic

Related Services

Real Estate

Tax and Economic Development Incentives

AUTHORED ARTICLE | Summer 2017

Originally published in *Development Incentives Quarterly*.

By: Chris Knezevic

The Governmental Accounting Standards Board (GASB) made waves in the economic development community in 2015 when it issued Statement No. 77 (GASB 77). GASB 77 requires governments, for the first time, to disclose in the notes of their financial statements the amount of tax revenues the government has promised to forego through tax abatements.

Several challenges exist for governments as they prepare to comply with the new reporting requirements. The first challenge is how to interpret the seemingly broad definition of "tax abatements." GASB 77 defines tax abatements as:

> *"A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forego tax revenues to which they are otherwise entitled and (b) 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 governments or the citizens of those governments."*

The ambiguity caused by the definition has resulted in some governments scrambling to determine which economic development incentives meet the criteria of a "tax abatement" and, therefore, must be reported. Making this determination can be tricky because incentives programs across the country vary in both form and function. Widely used incentives programs, such as property tax exemptions, tax increment financing (TIF), and enterprise zones, to name a few, can function quite differently depending upon the jurisdiction. Governments must decide what needs to be reported.

The city of Columbus is a relevant example. As one of the first large cities to disclose forgone revenues in accordance with GASB 77, Columbus did not list TIF in the tax abatement section of its 2016 financial report (although TIF was disclosed in a later section). This seemed in line with guidance provided by Ohio State Auditor David Yost who advised Ohio municipalities that TIF likely wouldn't fall under GASB 77 disclosure requirements. However, in late April, GASB provided clarification in its 2017 Implementation Guide. According to GASB, if incremental tax revenues are repaid or rebated, and not used for debt service, they fall within GASB 77 and should be disclosed in the financial report.

Further complicating matters is that GASB 77 requires governments to disclose passive losses of revenue that may be the result of another government approving a "tax abatement." For example, a county may approve a property tax exemption that not only reduces the county's portion of the incremental property tax created, but it may also reduce the amount of revenues other governmental entities will receive, such as applicable cities, school districts, community colleges, etc. Each governmental entity would be required to disclose the foregone revenue resulting from the county property tax abatement.

In addition to these considerations, governments must accurately identify and compile the data to determine exactly how much revenue is foregone. This may be an unenviable task for governments that are active in economic development. It is quite clear that governments have plenty to consider as they set out to comply with GASB 77 and there are likely to be growing pains during the first few years of reporting.