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In This Issue:

GASB 77, Tax Abatement Disclosures Reporting Requirements

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In August 2015 the Governmental Accounting Standards Board (GASB) released statement 77, ***Tax Abatement Disclosures***. This standard requires state and local governments for the first time to disclose information about tax abatement agreements for reporting periods beginning after December 15, 2015.

Why GASB 77 is Important

Tax abatement agreements are often used by a government to encourage new development, redevelopment of blighted areas, and job creation and retention. These agreements result in foregone revenue for a period of time. Prior to Statement 77, there were no *required* disclosures to communicate the forgone revenue to consumers of a local government's financial statements. Rather, interested parties—legislative and oversight bodies, investors, creditors, rating agency analysts, and other third parties—using financial statements to assess accountability, fiscal health, and revenue capacity to make informed decisions, had to make inquiries of management to discern foregone revenues resulting from tax abatement/tax incentive agreements. The disclosure requirements of GASB 77 will make it easier for financial statement users to access information pertaining to tax abatements and incentives, and to better understand the impact these agreements have on a government's revenue.

GASB 77 and the Rest of the Story

While GASB 77 will shed light on the amount of foregone revenues resulting from tax abatements/incentives, it raises the question, "what about the benefits associated with the agreements?" In other words, "what is the jurisdiction receiving in exchange?" Moreover, "where should this information be included in the financial statements?" Many jurisdictions are concerned that the disclosures are unbalanced because they fail to take into account the anticipated benefits which underpin the agreements.

While some believe that omitting the economic benefits and other outcomes from the disclosures is misleading, the GASB concluded that "it was not an objective of the Statement to provide information needed to evaluate the effectiveness of tax abatement programs and, therefore, did not modify the disclosure requirements to include information about the benefits of these programs."

Therefore, a government that prepares a comprehensive annual financial report (CAFR) may wish to "balance" the disclosures by including information in the introductory section of the report (transmittal letter) about favorable financial outcomes resulting from the agreements such as sales taxes and jobs.

Alternatively, a government may be able to include *limited* information in Management's Discussion and Analysis (MD&A), a part of Required Supplementary Information (RSI), under the heading "Economic Factors and Next Year's Budget." However, this may prove to be difficult as this section must only include *factual* information. Meaning information that is known as of the date of the independent auditor's report, and expected to have a *significant effect* on financial position or results of operations. For example, it would be appropriate to include a new industry that signed an agreement to locate a new plant within the jurisdiction as well as the number of jobs created. Also, it would be appropriate to discuss any major changes in the property tax base within this section.

How is the Term Tax Abatement Defined?

GASB defines a tax abatement 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 forgo 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 (GASB 77, para. 4).*

It is important to note that the GASB did not amend their definition of a tax abatement to specifically include or exclude any particular type of tax-reduction arrangement (for example, PILOTs, payments in lieu of taxes). Rather, the board added the following sentence after the definition of a tax abatement:

> A transaction's *substance*, not its *form or title*, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purposes of this statement.

Therefore, when reviewing various tax incentive agreements governments should look at substance over form when deciding which agreements to disclose. Moreover, it is recommended that you discuss the various agreements for inclusion with legal counsel and your independent auditor.

Transparency through Disclosure

Statement 77 requires the following tax abatement disclosures in the notes to the financial statements in order for financial statement users to better understand a government's overall economic condition:

1. Descriptive information to include
    - Names and purposes of tax abatement programs
    - Specific taxes being abated
    - Authority under which tax abatement agreements are entered into
    - Criteria that make a recipient eligible to receive a tax abatement
    - Mechanism through which taxes are being abated
        - o How the tax abatement recipient's taxes are reduced, such as through a reduction of assessed value
        - o How the amount of the tax abatement is determined, such as a specific dollar amount or a specific percentage of taxes owed
    - Provisions for recapturing abated taxes, if any, including conditions under which abated taxes become eligible for recapture
    - Types of commitments made by the recipients of the tax abatements (GASB 77, para. 7.a.)
2. Reduction of tax revenues for the reporting period due to tax abatements using the accrual basis of accounting (GASB 77, para. 7.b.)
3. Amounts received or receivable from other governments in association with foregone tax revenue:
    - Names of the governments
    - Authority under which taxes were or will be paid
    - Dollar amount received or receivable from other governments (GASB 77, para. 7.c.)

4. Commitments made as part of the tax abatement that do not involve reducing taxes (GASB 77, para. 7.d.); Must be disclosed until the government fulfills the commitment
5. Description of quantitative threshold used to determine tax abatements disclosed individually (GASB 77, para. 7.e.)
6. Description of tax abatement information omitted for legal purposes including the legal citation that authorizes the omission (GASB 77, para. 7.f.)

In addition to tax abatements entered into by the reporting government, additional disclosures are required for tax abatements authorized by other governments that affect the reporting government's tax revenues. The required disclosures are essentially the same as those listed above except as follows (GASB 77, para. 8)

- Descriptive information including the names of governments entering into the tax abatement agreement and specific taxes being abated
- No requirement to disclose commitments other than to reduce taxes

Those governments with discretely presented components units which have entered into tax abatement agreements should disclose the associated foregone revenue under the provisions of paragraph 7 if the information is essential to fair presentation. Otherwise, disclosure needs to agree with paragraph 8.

General Disclosure Principles (GASB 77, para. 5)

a. Disclosures should distinguish between tax abatements resulting from the reporting government's agreements and those agreements entered into by other governments that reduce the reporting government's tax revenues.

b. Disclosures may be provided individually or may be aggregated.

c. Disclosure information, presented individually or in the aggregate, for the reporting government should be organized by major tax abatement program.

d. Disclosure information, presented individually or in the aggregate, for other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated.

e. Disclosures should commence in the period in which a tax abatement agreement is entered into and continue until the agreement expires.

Where do I Start?

The best place to start is to identify *all* the agreements you have that may require reporting under the new Standard. You can begin the process by making inquiries of the city or county clerk, manager, administrator, chief appraiser, tax commissioner, development authority attorney, and city or county attorney. While these individuals may be able to provide you with various agreements, you want to ensure that your list is *complete*. Best practice for identifying existing tax abatement and PILOT agreements follows:

1. Obtain any attorney opinion letters indicating the legal authority under which the city/county entered into the tax abatement arrangement
2. Obtain a listing of properties in the name of the development authority through which the abatement is given from the tax assessor office
3. Request that the list identify properties and their respective valuations that the tax assessors are billing under various tax abatement agreements or Payment in Lieu of Taxes (PILOT) agreements
4. Obtain a listing from the tax commissioner of the actual tax bills issued for the year for the properties provided by the tax assessor

5. Use the development authority financial statements to compare outstanding revenue bonds (conduit debt) to the list of properties in the name of the development authority
6. Obtain copies of tax abatement and PILOT agreements (development authority attorney is a good source for this information)
7. If there is a private revenue bond outstanding but no tax abatement, determine whether 100% of the taxes due have been billed to the private entity for the year
8. Determine whether the amount of property taxes billed to the private entities with a current tax abatement agreement is correct per the agreement
9. Review properties on the list at the end of the prior year to determine if any of the abatement agreements and/or industrial revenue bonds have expired
10. If agreements have expired, ensure the property is no longer in the name of the development authority, has been transferred back to the private entity, and is included in the current year digest valuation for proper billing of taxes
11. Calculate the dollar amount of property taxes not billed (abatement amount) for the current year as a result of valid abatement agreements

Preparing for the required disclosures of this statement will help ensure a government is aware of current tax abatement revenue effects, and is in compliance with current agreements (taxes are being billed correctly according to the agreements), thereby simplifying the process of adding the abated property to the tax digest when the abatement period expires.

Georgia Budget Outlook:
Long Road Ahead, but There's Cause for Optimism

By Carolyn Bourdeaux

Georgia's state budget has been through a long, tough period during and after the Great Recession. The good news is that this year it's looking like the state is finally going to have some breathing room. That being said, the state has suffered from some serious economic resets, and Georgia has a long way to go before its budget and spending levels look anything like they did pre-recession.

So first, I'm cautiously optimistic about next year's budget.

The state had some nice revenue growth last year. Initial reports show around 6.6 percent growth in fiscal year (FY) 2015 general fund revenues over FY 2014. What this means is that the state's reserves appear to be at a decent level, about $1.45 billion or 7 percent of net revenue collections. Additionally, it means that FY 2016 general budget will only require the state to grow by 1.3 percent for the state to meet the revenue estimate.

(For additional analysis of Georgia's budget, download a recent presentation made by the Center for State and Local Finance.)

Assuming that the state can hit at least 4 percent growth over actual FY 2015 revenues in FY 2016, the state should have around $560 million in additional revenues over the original FY 2016 general budget general funds revenue estimate. This doesn't include the $700 million in new transportation revenues per HB170.

Most of this money is largely committed though around $170 million will be allocated to fund transportation. Additionally, the state will likely spend around $130-200 million on various K-12 programs to cover growth and other needs.

However, FY 2017 should be better. The state generally builds its budgets off of the prior year general budget, so the FY 2016 general budget will serve as the base for the amended and FY 2017 budget discussion. At 4 percent growth over the base budget, the state will be able to add around $830 million to FY 2017; however, with any luck, FY 2016 will grow 4 percent *and* FY 2017 revenues will grow 4 percent, which would mean around $1.4 billion to add to the base.

Again, this does not include the new transportation revenues. Also, the governor's revenue estimate for FY 2017 may be more conservative in its projections.

However, even with a more modest revenue projection, there is also some space opening up on the expenditure side. Since the end of the recession, almost all growth in revenues has been consumed with shoring up reserves, pension, Medicaid or other health benefits and covering growth or replacing cuts in the K-12 and higher education funding formulas.

The good news this year, is that to date, growth in Medicaid appears to be small — $118 million based on the Department of Community Health's fall presentation. The state health benefit plan appears to be running at least close to breakeven, and the state also appears to be caught up on its retirement system contributions, though it does need to start socking away funds to cover retiree health benefits ("other post-employment benefits" or OPEB).

What this means is that even after covering growth in K-12 and higher education formulas (about $250 million), covering the transportation funding shift (about $170 million plus), and possibly socking away some additional fund to start covering the state's long term OPEB liability, there is still likely to be some funds for policy investment.

Already there are some ideas about how any "extra" money could be spent:

- Eliminating the state's so-called "austerity" education cut, about $460 million
- Covering an increase in school spending based on the new formula, about $241 million
- State pay raises at 3 percent of payroll, around $400 million

The growth in revenues doesn't mean that Georgia is about to re-gild the Dome – it only means that the state may finally be able to move past the treading water stage of recovery.

Georgia's real per capita tax and fee revenues are 14 percent below the 2001 peak. Adding new transportation funding only brings the state to 12 percent below the peak. There are a number of agencies whose state funded budgets are today lower in actual dollar amounts than they were in 2008, some significantly so. The state's real per capita revenues are essentially the same as they were in 1996 — nearly 20 years ago.

The state is not now and has never been spendthrift and for many years has ranked among the most conservative states in terms of revenues per capita or revenues as a percentage of personal income. This rank is unlikely to change any time soon. The good news is that there is likely to be some reasonable space in the state budget to actually make policy choices beyond trying to maintain the state quo. The challenge now is to use any additional dollars to invest carefully and wisely in the future of the state.

About the author

Carolyn Bourdeaux is an associate professor of public management and policy at the Andrew Young School of Policy Studies at Georgia State University in Atlanta, Ga., director of the Center for State and Local Finance and associate director of the Fiscal Research Center. From 2007-10, Bourdeaux was on leave from the university to serve as director of Georgia's Senate Budget and Evaluation Office.

About the Center for State and Local Finance

The Center for State and Local Finance (CSLF) builds on the Andrew Young School of Policy Studies' reputation in scholarship and education in public finance. CSLF's mission is to develop the people and ideas for next generation public finance. For more information about the center, visit cslf.gsu.edu.

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Georgia Fiscal Management Council

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Efficient Fiscal Management of State Government Operations

Georgia Fiscal Management Council, a nonprofit organization, promotes efficient fiscal management of state government operations; promotes increased knowledge in governmental financial procedures and practices through sponsorship of training seminars, meetings, publications, and scholarships; and provides opportunities for the interchange of ideas, methods, and techniques affecting governmental fiscal management.

FMC Spotlight

Congratulations to our 2015 FMC Scholarship Winner: Rahul Pathak

Rahul joined the Ph.D. program in public policy at the Andrew Young School of Policy Studies at Georgia State University in 2012. Prior to joining the Andrew Young School, he worked as a Research Associate at the Centre for Policy Research, New Delhi and the Indian Institute of Management, Ahmedabad. Rahul holds a graduate degree in Development Studies from the Tata Institute of Social Sciences, Mumbai.

At the Andrew Young School, he currently works as Research Assistant at the Fiscal Research Center and has been involved in several research projects related to state and local finance, public sector employment and social policy. Last year, Rahul co-authored a report on public sector employment in Georgia with Dr. Greg Lewis (available at http://cslf.gsu.edu/files/2014/10/CSLF2_FIN.pdf) and is currently working on a project related to State Tax Reform. His research has appeared in journals like the State and Local Government Review. At GSU, he has taught courses to undergraduate students related to policy analysis and program evaluation.

In the future, Rahul wants to take up an academic position at a research university and continue research in the field of public finance and social policy. Asked his thoughts on the FMC scholarship, Mr. Pathak said, "I think that the FMC scholarship is an excellent opportunity for students like me to be associated with an organization of public finance professionals. I would like to continue my association with FMC and gain some practical insights into the financial management in state and local governments."