

TGFOA Spring Institute

GASB's New Toys **77, 80, 81, 83 and 84** March 31, 2017

Jerry E. Durham, CPA, CGFM, CFE

Effective Dates—June 30

• 2016

- **Statement 72—Fair Value Measurement and Application**
- **Statement 73—Pensions—Related Assets (outside scope of Statements 67 and 68)**
- **Statement 76—Hierarchy of GAAP for State/Local Governments**
- **Statement 79 - Certain External Investment Pools and Pool Participants**

• 2017

- **Statement 73—Pensions Amendments to Certain Provisions of 67 & 68**
- **Statement 74—Financial Reporting - OPEB Plans**
- **Statement 77—Tax Abatement Disclosures**
- **Statement 78 - Pensions Provided through Certain Multiple-Employer Defined Benefit Plans**
- **Statement 80 - Blending Requirements for Certain Component Units**
- **Statement 82 - Pension Issues**

• 2018

- **Statement 75—Accounting and Financial Reporting - OPEB - Employers**
- **Statement 81 - Irrevocable Split-Interest Agreements**
- **Statement 82 - Pension Issues (Certain Provisions related to Assumptions)**

2019

- **Statement 83 - Certain Asset Retirement Obligations**
- **Statement 84 - Fiduciary Activities**

Tax Abatement Disclosures - 2017

77

Background

- **What:** The Board issued Statement 77, which requires disclosures about a government's tax abatement agreements
- **Why:** Information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements
- **When: Effective for periods beginning after December 15, 2015**
 - **i.e. Calendar year 2016, and fiscal year June 30, 2017**

Tax Abatement Disclosures

- **Practice Issue -Tax Abatement Disclosures:**
 - Many governments offer tax abatements, but little information is publicly available regarding the provisions of the tax abatement agreements or the magnitude of the effect those agreements have on the government's ability to raise resources in the future.
 - For Local Governments in Tennessee they often take the form of **In-Lieu-Of-Tax Agreements**

Tax Abatement Disclosures

- Practice Issue -Tax Abatement Disclosures:
 - **1984 Saturn Corporation**
 - \$20 -30 million cash for training
 - \$50,000 million for Saturn Parkway
 - Maury County Agreements:
 - Rezoned Property
 - Issued Industrial Revenue Bonds
 - In-lieu-of-Tax Agreements – Maury County
 - In-lieu-of Tax Agreements with City of Columbia, City of Mt. Pleasant, City of Spring Hill (\$3.5 Billion plant)
 - Build a Fire Station

NOW, THEREFORE, for an in consideration of the terms, conditions, premises and covenants herein contained, the parties hereby agree to amend the PILOT Agreement and otherwise be legally bound as follows:

1. Amendment of Section 3 of the PILOT Agreement. The terms and provisions of Section 3 of the PILOT Agreement are hereby revoked effective as of January 1, 1996 and the following shall be substituted in lieu thereof:

3. Amount of Payments.

(a) During 1986, the Company will make the following Payments: on February 28—\$2,000,000; on June 1 - \$2,000,000; and on October 1 - \$3,500,000. On October 1 of each year beginning October 1, 1987, the Company will make the following payments for the periods indicated:

Year(s)	Amount of Annual Payment
1987 - 8	3,500,000
1989-95	3,000,000
1996-2005	25% of "Standard Tax" (as defined below)
2006-2010	30% of Standard Tax
2011-2015	35 % of Standard Tax
2016-2025	40% of Standard Tax

provided however, that if (but only if) the Industrial Facility is being operated as an Automotive Assembly Plant (as defined below) as of January 1, or at any time prior to October 1 of any of the following years, the annual Payments for such year will not be less than (i) for each of the years 1996 through 2005, inclusive, \$2,000,000; (ii) for each of the years 2006 through 2010, inclusive, \$2,250,000; (iii) for each of the years 2011 through 2015, inclusive, \$2,362,500; and (iv) for each of the years 2016 through the year during which this Agreement expires, inclusive, \$2,480,625 (provided, further, however, that the calculation of the minimum Payment for any year is subject to the provisions of Section 3(d), below). For purposes of this Section 3(a), the phrase "being operated as an Automotive Assembly Plant" shall mean that at least some portion of the Industrial Facility is being used by the Company for manufacture and final assembly of automobiles for shipment to dealers for sale at retail to such dealers' customers (i.e., the manufacture, final assembly and shipment of finished automobiles). In the event no portion of the Industrial Facility is being operated as an Automotive Assembly Plant as of January 1, nor at any time prior to October 1 in any of the years specified in sections 3(a)(i) through (iv) above, then the minimum Payment provisions set forth in Sections 3(a)(i) through (iv) shall be no further force or effect and the amount of the Payments due hereunder will be calculated without regard to such provisions.

Tax Abatement Disclosures

- **Practice Issue -Tax Abatement Disclosures:**
 - **Maury County had no disclosures in the Notes to the Financial Statements!**
 - **This is not wrong. This was not required and until GASB 77 was the norm for State and Local Governments.**
 - **GASB did not require any presentation.**

Tax Abatement Disclosures

- Practice Issue -Tax Abatement Disclosures:
 - **Nissan Headquarters**
 - \$197,600 in tax breaks and incentives from State and Williamson County
 - \$64 million in relocation assistance (\$50,000/person)
 - \$6 million for temporary office space
 - \$23 million site incentive
 - \$80.3 million “enhanced jobs tax credit”
 - \$5.5 million “headquarters tax credit”
 - \$3 million for recruitment
 - \$1 million for fast track job training
 - \$14.8 million in tax abatements from Williamson County
 - University of Tennessee study suggested that the economic benefit
 - Boost to local income = \$527 million
 - Increase to local tax revenues = \$24 million
 - Produce 13,260 new jobs

Tax Abatement Disclosures

- **Practice Issue -Tax Abatement Disclosures:**
 - **2008 VW Original Plant**
 - Total package, \$577 million in incentives
 - **2016 VW Expansion**
 - Total package, possible \$300 million
 - \$165.8 million for site development, prep, etc.
 - \$52.5 million loan from Chattanooga and Hamilton County, about half to be repaid
 - \$12 million state training grant
 - \$33 million in property tax breaks over the next decade
 - More

Word Association Test

- GASB
- GASB 68
- Auditor
- 2 day training
- GAO – Yellow Book
- Single Audit

Tax Abatement Disclosures

- **What was your first thought when you saw those Tennessee industry recruitment numbers??**
- **If we don't do this, TN won't get these industries!**

Definition and Scope

- Does not include all transactions that reduce tax revenues
- Emphasis is on the substance of the arrangement meeting the definition, not on its name or form
- Would apply only to arrangements meeting this the following definition:

Definition and Scope

- **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 (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.

Definition and Scope

- **Tax Expenditures**
 - **Cost of foregoing the collection of taxes the government was entitled to collect**
 - Tax Exemptions
 - Tax Deductions
 - Tax Abatements
 - **Type of Revenue**
 - A tax (not a fee or service charge)

Definition and Scope

- **Tax Abatements:**
 - Proceed from an agreement
 - The agreement does not have to be in writing
 - The agreement does not have to be legally enforceable
 - The agreement must precede the “abatement”
 - The substance of the agreement rather than the form determine whether an “abatement” has taken place
 - Can be agreements of the government itself, or
 - Agreements of others that reduce the government’s revenue
- **What about Tax Increment Financing?**
- **What about Tax Rebates that are in substance abatements?**

Definition and Scope

- **What about Tax Increment Financing?**
- **What about Tax Rebates that are in substance abatements?**

General Disclosure Principles

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments that 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 a quantitative threshold established by the government (may use different thresholds for government vs. other governments)
- 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

General Disclosure Principles

- The disclosures may be aggregated by major tax abatement programs
- Governments are not required to present information if they are legally prohibited from doing so (however, that fact must be disclosed)
- Disclose information for discrete component units:
 - If essential to fair presentation of the government – then like any other agreement of the government
 - If not essential to fair presentation, then disclose like an agreement of another government

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	✓	

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	✓	✓

Tax Abatement Disclosures

- Perhaps even more interesting are the disclosures that are **not** required. For example:
 - The names of the entities that received a tax abatement
 - How an entity that received a tax abatement, spent or is spending the money
 - The actual or potential benefits to the local government of granting the tax abatement
 - GFOA has a best practice document that recommends using the letter of transmittal for disclosure.
 - Number of Tax Abatement Agreements
 - Duration of Tax Abatements
 - Total Amount of Abatements over the duration of agreement

Tax Abatement Disclosures

Information relevant to the disclosure of those programs for the fiscal year ended December 31, 20X1 is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated during the Fiscal Year (in thousands)</u>
Residential Improvement Program	\$ 32,912
Film and Television Production Incentives	
Sales Tax	13,435
Corporate Income Tax	12,479
Department of Economic Assistance	
Economic Assistance Initiative	18,586
High-Tech Investment Program	9,578
Competitive County Credit	11,159
Renewable Energy Incentive	
Sales Tax	8,157
Corporate Income Tax	4,619

Tax Abatement Disclosures

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Quiz

- Which of the following represents a “tax abatement”?
 - A. A property tax exemption for church property
 - B. A donation of land to a industrial company as incentive to locate
 - C. A reduction in landfill charges for a company for the first 5 years after relocation
 - D. Local government provides a loan to a company
 - E. None of the above

Quiz

- Which of the following represents a “tax abatement”?
 - A. The State of Tennessee reduces corporate income tax for a particular project which also reduces the shared corporate income tax of a local government
 - B. A greenbelt assessment that reduces property tax for a farmer or company
 - C. The State of Tennessee reduces the state sales tax rate for a company and statutorily requires a local government to reduce its local sales tax rate as part of the agreement
 - D. None of the above

Quiz

- Which of the following would never be a “tax abatement”?
 - A. A tax reduction that would be available to anyone under the circumstances
 - B. A tax that is charged and collected by authority of the state government but is shared with a local government by formula
 - C. A donation of land to an industry as an incentive to relocate to Tennessee
 - D. All of the above

Quiz

- Which of the following properly accounts for the tax revenue forgone on the books of the local government?
 - A. Credit Revenue, and Debit an Expenditure/Expense
 - B. Debit a Receivable and Credit a Deferred Inflow
 - C. Credit Revenue, and Debit a Receivable
 - D. Debit an Expenditure/Expense, and Credit Cash
 - E. None of the above

Quiz

- Tax abatement agreements for discretely presented component units should?
 - A. Be treated like any other agreement of the government itself
 - B. Be treated like an agreement of another government
 - C. Either A or B
 - D. None of the above

Quiz

- Which of the following are not true for tax abatement disclosures?
 - A. Gross dollar amount of the abatements must be presented for the current year and future years
 - B. Disclosures may be aggregated for different types of programs
 - C. Disclosures must be separated between the government and other governments that provide tax abatements including component units
 - D. The government may establish a threshold for individual agreements
 - E. A and C

Final Thoughts

- **Tax Abatements are a necessary part of today's business environment.**
- **Now the general public will know what the amount of Revenues abated.**
- **This create two problems:**
 - **Those in charge of governance may be more reluctant to provide tax abatements**
 - **Other business may demand equal treatment**

Questions!

Jerry E. Durham, CPA, CGFM, CFE

Blending Requirements for Certain Component Units - 2017

80

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - Exposure Draft June 2015
 - GASB 80 Issued in January 2016
- Effective for periods beginning after June 15, 2016. (i.e. calendar year 2017 and fiscal year June 30, 2017)
- Earlier Application encouraged

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - **Certain financial reporting entities such as the Healthcare Industry (BTA) desire to be able to present all component units in either a single column or by a multi-column approach for blended component units.**
 - **Problem, their component units do not meet the requirements for blending.**

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - **The statement amends Statement 14 paragraph 53 to add a “new” blending requirement when:**
 - **The entity is a Not-for-profit corporation**
 - **Primary government is the sole corporate board member on the boards of other component units**
 - **Applies to all state and local governments**

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - **Additional Blending Criteria:**
 - “A component unit should be included in the reporting entity financial statements using the blending method when the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member.”
 - Notice the title, **Certain Component Units**. The application is limited in scope.

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - **The statement does not apply to component units included under provision of Statement 39.**
 - **So now we have Statements 14, 39, 61, 80 and 34 that all help us understand the reporting entity and how to report component units.**

Irrevocable Split-Interest Agreements - 2018

81

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - Exposure Draft Issued June 2015
 - GASB 81 Issued March 2016
 - **Effective for Periods beginning after 12/15/2016 (i.e calendar year 2017, fiscal year 2018)**
- **Definition of Irrevocable Split-Interests:**
 - A split-interest agreement in which the donor has not reserved, or conferred to another person, the right to terminate the agreement at will and have the donated assets returned to the donor or third party.

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - **Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. Examples include charitable lead trusts, charitable remainder trusts, charitable annuity gifts, and life-interests in real estate.**
 - **Does your government have any split interest agreements? Yes ____ No X ?**

Certain Asset Retirement Obligations

83

ARO

- **Certain Asset Retirement Obligations (ARO):**
 - Exposure Draft Issued December 7, 2015
 - Statement 83 Issued November 2016
 - **Effective for periods beginning after June 15, 2018 (i.e. July 1, 2018 to June 30, 2019)**
- **FASB Statement 143, Accounting for Asset Retirement Obligations (2001) has been followed.**
- **Should costs be capitalized, what should be disclosed?**

ARO

- ***Asset retirement obligation***—A legal obligation associated with the retirement of a capital asset, the unavoidable costs of retiring an asset
- ***Retirement of a tangible capital asset***—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)

ARO

- Includes:
 - Nuclear power plant decommissioning
 - Coal ash pond closure (those that are not landfills)
 - Contractually required land restoration such as removal of wind turbines
 - Sewage Treatment Facilities
 - Other similar obligations
 - **But not the pollutions they cause!**
- Excludes:
 - Landfills (GASB 18), However this is the most common ARO
 - Pollution remediation obligations from abnormal operation (GASB 49)
 - Conditional obligations to perform asset retirement activities, such as most asbestos removal

ARO

- **Asset Retirement Obligations (ARO):**
 - **Legally enforceable liability**
 - **Internal obligating event**
 - **Associated with a tangible capital asset**
 - **Recognize a liability when incurred and reasonably estimable**
 - **Use probability weighing of all potential outcomes or if this is not available at a reasonable cost, then use most likely amount**
 - **Record a deferred outflow = to liability**
 - **Remeasure the liability for effects of inflation and deflation annually and other relevant factors. Book if significant**
 - **Special recognition for recognition of minority interests calculated under other than GASB GAAP**

ARO

- **Asset Retirement Obligations (ARO) - Disclosures:**
 - **Disclose funding requirements and amounts accumulated and restricted for payment of the liability**
 - **Nature of government's AROs**
 - **Methods and assumptions used for estimates of liabilities**
 - **Estimated remaining useful life of associated tangible assets**
 - **Disclose the fact and reasons why a liability is not reasonably estimable**
 - **Similar disclosures for minority interests**

ARO

Proposal: Recognition & Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable—measured based on the best estimate	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none">• At least annually remeasure the current value for inflation/ deflation• At least annually evaluate relevant factors for significant change	Recognize a reduction as an outflow of resources – systematic and rational manner over the useful life

Fiduciary Activities

84

Fiduciary Activities

- **Fiduciary Activities:**
 - PV issued November 2014.
 - Exposure Draft issued December 8, 2015.
 - Statement 84 issued January 2017.
 - **Effective date for periods beginning after December 15, 2018 (July 1, 2019 to June 30, 2020)**
- **Definition - When is a government in a Fiduciary Relationship?**
 - Controls Assets

Fiduciary Activities

- **Would establish criteria for identifying and reporting fiduciary activities of all state and local governments**
- **The main focus of the criteria generally is whether a government is “controlling” or has the “ability” to control the assets of the fiduciary activity**

Fiduciary Activities

- **Fiduciary Activities:**

- **Control is established if the primary government:**
 - Holds the assets for the benefit of others.
 - The government has the ability to direct the use, exchange, or employment of the assets in a way that provides benefits to the specified or intended recipients.
 - Restrictions from legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government's control of the assets.

457 Plans

GASB 32

**APPLICATION FOR
GROUP ANNUITY CONTRACT**

Application is hereby made for a Group Annuity Contract to be issued on the basis of each completed Enrollment Form submitted by the Applicant.

1. Applicant (give exact legal name):
██████████ Municipal Water District

Address: ██████████
██████████ (CITY) ██████████ (STATE) ██████████ (ZIP CODE)

2. Employer:
Address: ██████████
██████████ (CITY) ██████████ (STATE) ██████████ (ZIP CODE)

3. Nature of Employer's business: Political Subdivision, St. of TN. - Water Utility

4. Section of Internal Revenue Code under which the Purchase Payments made are to qualify (Check one only):
Section 404 (a): Corporation IRA Policy
Section 403 (b): 501(c) (3) organization Public school system
 Section 457 Not applicable
 Other

5. Should notices be sent to the Employer? Yes
If not, to whom? _____

6. Except as requested otherwise under item 7, normal retirement age, amount of purchase payments, and effective date will be as indicated on each Enrollment Form submitted by the Applicant. The type of annuity will be elected by each Participant.

7. Special Requests: Deferred Compensation Plan: The Group Contract holder
will exercise all ownership rights under the group contract.

It is understood that this application is for a Group Annuity Contract providing fixed and variable benefits in which each employee (participant) will at all times have a 100% vested interest in his or her individual account unless specified otherwise in Special Requests above.

ANNUITY PAYMENTS (AND TERMINATION VALUES, IF ANY) PROVIDED BY THE CONTRACT ARE VARIABLE WHEN BASED ON THE INVESTMENT EXPERIENCE OF THE COMPANY'S SEPARATE ACCOUNT FOR VARIABLE CONTRACTS, AND ARE NOT GUARANTEED AS TO FIXED DOLLAR AMOUNT.

Dated on ██████████ the 1st day of January, 19 96

██████████ (Witness) By: ██████████ (Applicant) Municipal Water District

571-26-47-1

- Coming Soon to a
Government Near You!

Questions!

Jerry E. Durham, CPA, CGFM, CFE