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The Coming Transparency Wave: GASB 77

In 2017, there will be a convergence of factors that will raise the awareness, profile and scrutiny of economic development activities undertaken by state and local governmental entities. Specifically, Governmental Accounting Standards Board (GASB) [Statement 77](#) requires state and local governments to disclose the revenue forgone through tax abatements, a common, but not exclusive, form of business attraction and retention incentive. While Statement 77 is only now being implemented by governments, the Trump Administration's workforce, tax and trade policies have placed intense focus and widespread publicity on new investments by companies, which often have significant tax abatements approved. The extensive data required to be disclosed by Statement 77, along with national media attention on each new announcement by the White House, will drive greater demand for transparency and accountability from governments on the use of tax abatements and their impact on other programs and priorities.

BACKGROUND OF STATEMENT 77

Statement 77 requires state and local governments to disclose, as a note to the financial statements, the amount of lost revenue they have incurred as a result of entering into tax abatement agreements. Statement 77 not only requires the approving government to disclose its own lost revenue, but all taxing authorities (school districts, cities, states and counties) impacted by the abatement are required to disclose their lost revenue irrespective of the approving body. Governments are required to disclose the actual lost revenue from all outstanding agreements, aggregated by program. And finally, the disclosure must be calculated based on an accrual basis of accounting for the fiscal year. The calculation of the revenue forgone can be complex alone, but with the accrual basis being applied, the difficulty is magnified.

TIMING AND COMPLEXITIES

The prevalent belief is Statement 77 appears to be straightforward, but governments may experience timing difficulties and unexpected complexities as they start to gather the information needed to calculate the revenue lost from tax abatements. These may include the following:

1. Coordination will be needed among multiple agencies to assemble the myriad information required to be disclosed, including economic development agencies, property assessors, treasury departments, community housing agencies, port authorities, convention authorities, natural resources agencies, etc.
2. Coordination will be needed among all of the governmental units that have been impacted by agreements approved by the reporting government. Conversely, if other governmental units have approved abatements that impact the reporting government's tax revenue, it will be necessary to identify those governments and work with them to gather the requisite information for the reporting government's disclosure.
3. Some agreements have been outstanding for many years. The relevant information may not be readily available for the reporting unit to gather, review and analyze, thus delaying the ability to include the information in the disclosure.
4. Many jurisdictions do not currently calculate the actual lost revenue from their approved

abatements. Rather, they project the total lost revenue from estimates made at the time of the original application. Care must be taken to ascertain that the information submitted by various agencies is the actual lost revenue from the current year's activities, based on actual capital expenditures, job creation, etc. Estimates from the original application are not sufficient for this disclosure.

5. The disclosure is required to be made on an accrual basis of accounting. Identification of cash versus accrual adjustments that will be needed could be difficult. For example, an abatement recipient could claim the abatement on a calendar-year basis, the reporting government could have one fiscal year or other impacted governments could have different fiscal year-ends.

Statement 77 forces state and local governments to identify the true impact of approved abatement agreements on tax revenue. Timing can be the biggest challenge, with most governments already in their affected fiscal year for disclosures.

TRANSPARENCY TRENDING IN 2017

Statement 77 had been in process well before President Trump was elected and had been eagerly awaited, primarily by several watchdog groups. Now, with President Trump's mission to encourage businesses to expand operations in the United States a topic of daily news articles, tax abatements have become a frequent discussion item in newspapers across the country. The announcement by then President-Elect Trump of the \$7m incentives package used to entice Carrier to retain part of its manufacturing operations in Indiana received immense media attention and resurrected many discussions and perspectives on the use of incentives. Public officials were scrutinized and forced to justify the deal negotiated.

As businesses are pressured to increase investments and job creation in the United States, the demand for incentives is expected to increase. These projects, including the incentives' packages, will continue to receive extensive press coverage, questioning whether these companies should receive such incentives packages. The expanded press coverage, along with the newly required financial statement disclosures, will increase the pressure on public officials to justify the lost revenue from economic development programs, and may deter or otherwise make economic development efforts difficult. The information disclosed by Statement 77 will be widely disseminated and compared readily.

NOW IS THE TIME TO PREPARE

As mentioned, many government units are in their fiscal year for Statement 77 disclosures. As public attention increases the profile of economic incentives, state and local governments should be prepared to address the scrutiny that will fall on their economic development programs. First, governments and economic development organizations should assess how effective their economic development programs are. For example, are the programs accomplishing their stated purpose? If not, what changes should be made to make the programs more effective? Second, governments and economic development organizations need to substantiate the benefits they receive from the programs; to that end, consider an economic analysis of programs to assess the return on investment. And third, clear, complete and accurate documentation and support should be prepared to be in compliance with Statement 77. All calculations should be readily supported because the numbers will be analyzed, scrutinized and widely reported by the media and watchdogs. An organized and comprehensive approach to complying with disclosures and managing public scrutiny of incentive programs will empower all governments to face the coming media wave head on.

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