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# CDFA Texas Financing Roundtable Webcast:
# Tax Incentives: Exploring New Reporting & Disclosure Standards in Texas

## The Broadcast will begin at 10:00am CST (11:00am EST).

*While you're waiting, check out some upcoming CDFA events…*

Intro Public-Private Partnership (P3) Finance Course
September 14-15, 2016
Daily: 12-5pm (Eastern)

Intro Food Systems Finance Course
November 2, 2016
New Orleans, LA

Intro Property Assessed Clean Energy (PACE) Finance Course
November 2, 2016
New Orleans, LA

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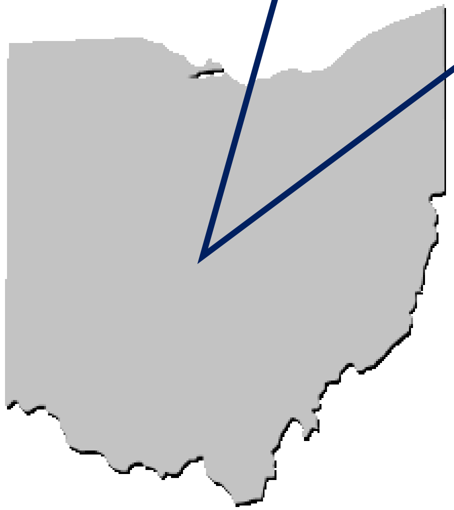
# Tax Incentives: Exploring New Reporting & Disclosure Standards for Texas


## Kara Knight
**Manager of Education**
**Council of Development Finance Agencies**
**Columbus, OH**

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# Tax Incentives: Exploring New Reporting & Disclosure Standards for Texas

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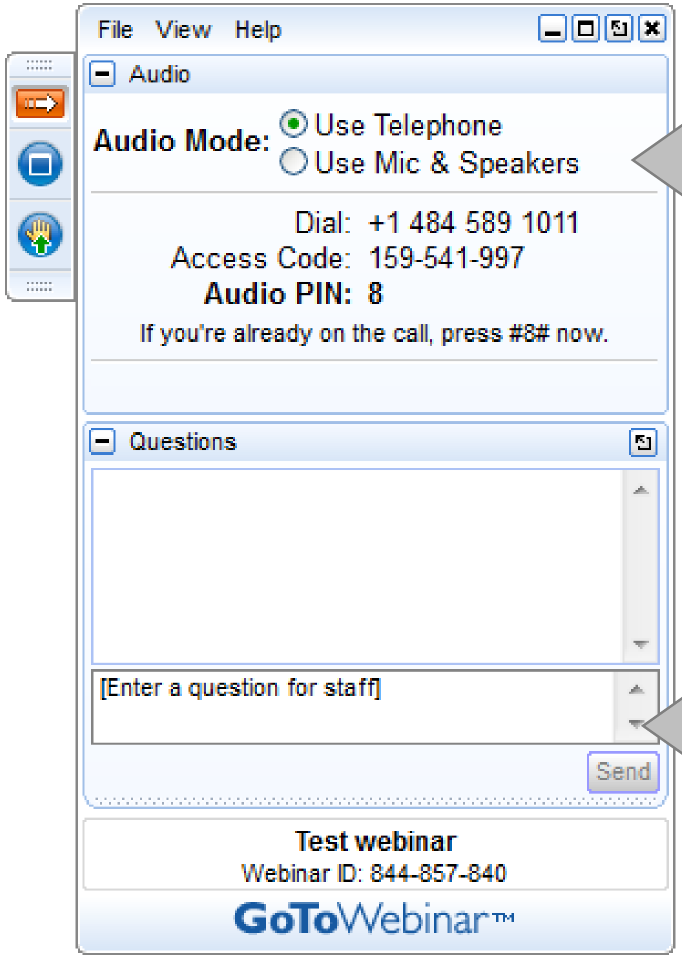


Using your telephone will give you better audio quality.

Submit your questions to the panelists here.

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# Tax Incentives: Exploring New Reporting & Disclosure Standards for Texas

This webcast is designed to provide accurate and authoritative information in regard to the subject matter covered. It is available with the understanding that CDFA and the panelists are not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

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# Tax Incentives: Exploring New Reporting & Disclosure Standards for Texas

## Speakers

**Ellen Harpel**
President, Business Development Advisors LLC
Founder, Smart Incentives

**Pam Dolan**
Project Manager
Government Accounting Strategies Board

**Dan Breen**
Executive Vice President
Business & Economic Incentives
Jones Lang LaSalle

**Tony Kaai**
President
Denison Development Alliance

**Danny Booth**
President
Economic Development
City of Terrell, TX

# Tax Incentives: Exploring New Reporting & Disclosure Standards for Texas

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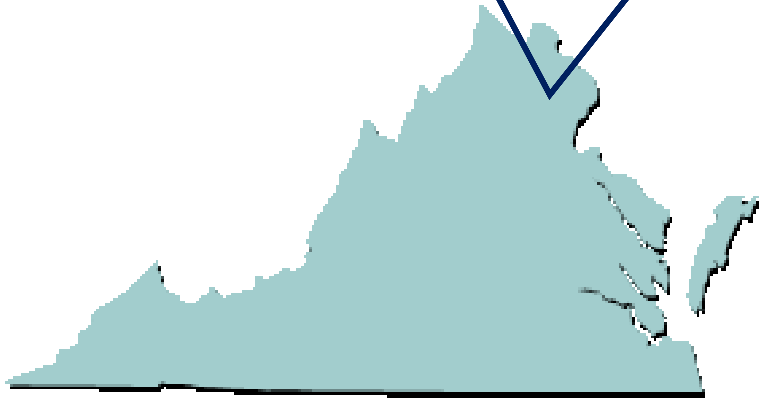
## State Financing Programs for Economic Development


# Ellen Harpel

**President, Business Development Advisors LLC**
**Founder, Smart Incentives**
**Arlington, VA**

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# Tax Incentives: Exploring New Reporting & Disclosure Standards

CDFA TEXAS FINANCING ROUNDTABLE
SEPTEMBER 2016

ELLEN HARPEL
SMART INCENTIVES

# About us

Business Development Advisors is an economic development consulting firm

Smart Incentives helps communities make sound decisions throughout the incentives process

# Why do we use incentives?

## To achieve our community's economic development goals

- Jobs
- Business Development
- Investment
- Downtown revitalization
- Brownfield redevelopment
- Quality of life and quality of place
- Strengthen tax base

Incentives are not just about winning a deal. Smart incentive use is always connected to a larger economic development strategy.

# What is driving interest in incentives disclosure?

Disconnect between what economic developers believe they do and what others think they do

Growth in incentive use
- more programs
- more money
- more projects

Expectation for data-driven, performance-based accountability in government programs

# Fundamentals of reporting & disclosure

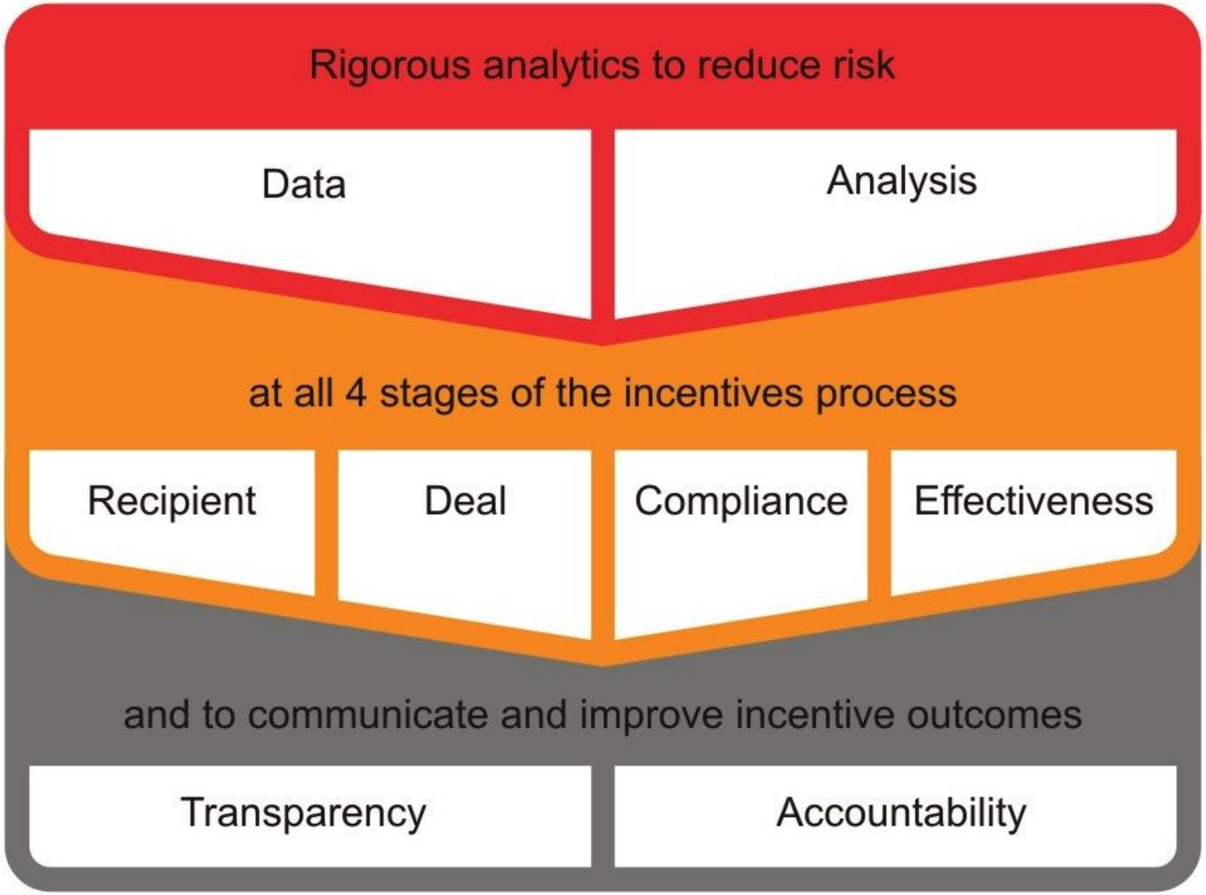
Transparency

- How much are we spending?
- Who is receiving incentives?

Accountability

- What are we getting out of our incentives spending?
- Do our programs help us achieve our goals in an effective and efficient manner?

# Reporting is part of the incentives process



# Introduction to GASB 77

Requires disclosure of financial information about tax abatement agreements between individual taxpayers and governments

- Guidance is limited to tax abatements – does not include all tax expenditures or other forms of assistance to businesses
- Not limited to tax abatements for business attraction/expansion

Why? To make transparent the financial impact of transactions that can limit a government's revenue-raising ability

GASB is not directly concerned with the effect of tax abatements on economic development outcomes

In effect for financial statements for periods beginning after Dec. 15, 2015

# Three steps for economic developers

Understand which tax incentives meet the GASB criteria for disclosure

Communicate with your government finance staff

Determine how to supplement the financial disclosure

- Disclosures will describe costs but not expected benefits of tax abatements
- Consider supplemental reports
- Be prepared for questions
- Engage and be a good resource

# Contact us

Ellen Harpel
President

571/212.3397

eharpel@businessdevelopmentadvisors.com
www.businessdevelopmentadvisors.com

ellen@smartincentives.org
http://www.smartincentives.org/

@SmartIncentives

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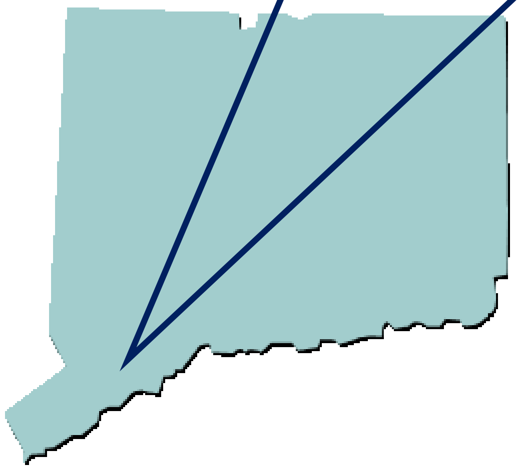
# State Financing Programs for Economic Development

## Pam Dolan

**Project Manager**
**Governmental Accounting Standards Board**
**Norwalk, CT**



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# Statement No. 77, *Tax Abatement Disclosures*

## Council of Development Finance Agencies

Pam Dolan, Project Manager
Governmental Accounting Standards Board

September 9, 2016

*The views expressed in this presentation are those of Ms. Dolan. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

# Overview

- What is the GASB?
- Background on Statement 77
- Scope and Definition
- General Disclosure Principles
- Disclosure Requirements
- Effective Date and Transition

# What Is the GASB?

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

# The GASB and Its Mission

*Establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards*

- Accounting standards exist to guide governments in providing information needed by citizens, legislators, oversight bodies, municipal bond holders, and others
- The GASB is recognized by the states, the American Institute of CPAs (AICPA), and state boards of accountancy as the setter of generally accepted accounting principles (GAAP) for state and local governmental entities
- Private, not-for-profit organization overseen by the Financial Accounting Foundation

# How the GASB Sets Standards

- Standards are set in full daylight with as much public input as possible
- Extensive research with stakeholders
- Open Board meetings (can be viewed live online or recorded in archive):
  - Three-day meetings in Norwalk every six weeks
  - Teleconference meeting in between each Norwalk meeting
- Public exposure of proposals for stakeholder comment, usually more than one round for major topics
  - For major topics, will conduct public hearings and user forums
  - Conduct field test of proposed standards with actual governments, including school districts

# Constant Stakeholder Feedback

- Interviews, roundtables, surveys, and other research that involves actual stakeholders
- Governmental Accounting Standards Advisory Council (GASAC)
  - 31 members representing various types of stakeholders
  - Meets three times a year
- Task forces for major topics, composed of stakeholders broadly representative of the community of preparers, auditors, and users of financial statements
- Communication throughout the project
- One or more rounds of public comment on proposals

# Background on Statement 77

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

# Tax Abatements Are Very Significant

- Billions of dollars of tax revenues are abated every year
- Thousands of governmental entities involved
- Abatements often are not recorded in the accounting system and, therefore, are not reflected in the financial statements – however, they have as significant an impact on finances as expenditures and outstanding liabilities
- Information provided is inconsistent from government to government and sometimes insufficient

# More Information about Tax Abatements Is Needed

- Financial statement users need information about tax abatements to assess:
  - Whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity)
  - Whether a government complied with finance-related legal and contractual obligations
  - Where a government's financial resources come from and how it uses them
  - A government's financial position and economic condition and how they have changed over time

# Scope and Applicability: To Whom and What Does Statement 77 Apply?

# Scope: Definition of a Tax Abatement

Statement 77 applies only to transactions meeting this 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.

# Scope: Substance over Form

- The Statement does not include or exclude transactions based on their form or name – governments should apply the criteria contained in the definition
- Key points:
  - A principal distinction between tax abatements and other tax expenditures is the existence of an agreement with an individual or entity
  - The agreement generally is in writing but not necessarily
  - The agreement may or may not be legally enforceable
  - The agreement must precede the reduction of taxes and the recipient's fulfillment of the promise to act
  - The tax reduction may occur before, during, or after fulfilment of the promise – as long as it occurs after the agreement has been entered into

# General Disclosure Principles for Statement 77

# General Disclosure Principles

- A government should disclose information separately for:
  - Its own tax abatements
  - Tax abatements that are entered into by other governments and that reduce the reporting government’s tax revenues.
- Disclosure information may be presented for individual agreements or may be aggregated
  - For a government’s own abatements: organized by major tax abatement program
  - For other government’s abatements: organized by the governments entering into the abatements and the specific taxes being abated

# General Disclosure Principles (continued)

- Disclosure should commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires
  - Exception: Information about a commitment by the government other than to reduce taxes should be disclosed until the government has fulfilled the commitment, which may be before the agreement expires

# Disclosing Individual Abatements

- If a government chooses to disclose individual abatement agreements, it should select a quantitative threshold and disclose all agreements that meet or exceed the threshold
  - Any quantitative threshold used by the government to determine which agreements to disclose individually should be described in the note disclosure
  - A government may use one threshold for its own abatements and a different threshold for other governments' abatements
  - A government may disclose some of its own abatements individually but disclose those of other governments in the aggregate, or vice versa
  - Tax abatements below the threshold (if any) should be presented in the aggregate, as described in the Statement

# Statement 77 Disclosures

# Summary of 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 | ✓ | |

# Summary of Required Disclosures (cont.)

| 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 | ✓ | ✓ |

# Disclosure Requirements: Government's Own Abatements

- Brief descriptive information:
  - Name and purpose of the program
  - Specific taxes being abated
  - The authority under which taxes are abated
  - The criteria, if any, that make a recipient eligible
  - The mechanism for abating taxes (form and calculation)
  - Provisions for recapturing abated taxes, if any
  - The types of commitments made by recipients of tax abatements

# Disclosure Requirements: Government's Own Abatements (continued)

- Gross dollar amount by which the government's tax revenue was reduced in the current year, on an accrual basis
- If the government made commitments other than to reduce taxes, a description of:
  - The types of commitments made
  - The most significant individual commitments made

# Disclosure Requirements: Other Governments' Abatements

- Brief descriptive information including the name of the other government and the specific taxes being abated
- Gross dollar amount by which the reporting government's tax revenue was reduced in the current year, on an accrual basis

# Disclosure Requirements: All Abatements (if applicable)

- If amounts are received or are receivable from other governments in association with the forgone tax revenues :
  - The names of the other governments
  - The authority under which the amounts are paid
  - The dollar amount received or receivable
- If a government legally prohibited from disclosing specific information required by the Statement:
  - A description of the general nature of the information omitted
  - The specific source of the legal prohibition

# Tax Abatements of Component Units

- Blended component units’ tax abatement agreements that reduce the primary government’s tax revenues – disclose the information required for the government’s own tax abatement agreements
- Discretely presented component units’ tax abatement agreements that reduce the primary government’s tax revenues should be evaluated to determine whether they are essential to fair presentation of the primary government (as required by Statement No. 14, *The Financial Reporting Entity*, as amended):
  - If they are essential to fair presentation, disclose the information required for the government’s own tax abatements
  - If they are not essential, disclose the information required for other governments’ tax abatements

# Effective Date and Transition

# Effective Date & Transition

- The disclosure requirements should be applied to the current period and all prior periods presented
- If application for all prior period presented is not practical, the reason for not applying the standards to prior periods presented should be explained
- Effective for periods beginning after December 15, 2015
  - Early adoption is encouraged

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*GASB Home ›› Tax Abatement Disclosures*

# TAX ABATEMENT DISCLOSURES

## WHAT IS A TAX ABATEMENT?


Statement 77 applies to transactions involving an agreement between at least one government and a taxpayer. The government reduces—or, abates—the taxes the taxpayer otherwise would owe. The taxpayer, in turn, takes a specific action that contributes to economic development or otherwise benefits the government or its citizens.

CONTINUE TO FULL PROJECT INFORMATION

WHY DO GOVERNMENTS GRANT TAX ABATEMENTS? +

WHY DID THE GASB ISSUE GUIDANCE ON TAX ABATEMENT DISCLOSURES? +

WHAT IS THE GASB REQUIRING GOVERNMENTS TO DISCLOSE? +

## RECENT ANNOUNCEMENTS

GASB Statement Requires Governments To Disclose Information On Tax Abatements | August 14, 2015

## LATEST ACTIVITY

GASB Statement No. 77 Issued (August 14, 2015)

## OTHER DOCUMENTS/ COMMUNICATIONS

Statement No. 77

GASB In Focus

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

# Website Resources

- Free download of Statements, Interpretations, Concepts Statements and other pronouncements
- Free access to the basic view of the Codification
- Free copies of proposals
- Up-to-date information on current projects
- Articles and Fact Sheets about proposed and final pronouncements
- Form for submitting technical questions
- Educational materials, including podcasts
- Electronic newsletter and other resources for users

# Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Plain-language articles accompany major proposals and final pronouncements
- Fact Sheets are prepared for complex projects to answer commonly raised questions
  - Series of 8 fact sheets on Statements 67 & 68 on pensions

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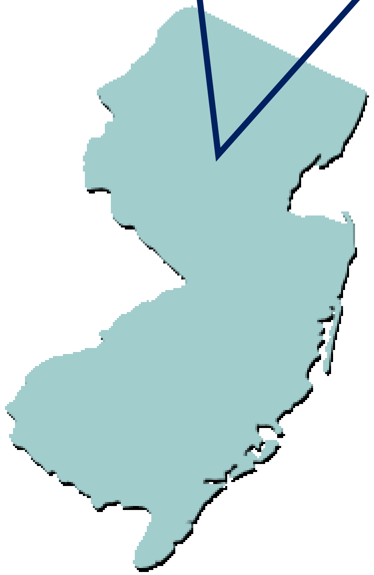
# State Financing Programs for Economic Development


## Dan Breen

**Executive Vice President**
**Jones Lang LaSalle**
**Parsippany, NJ**

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# Site Selection: Business/Consultant Perspective

**Site selection is transitioning from a largely tactical decision to a more strategic, transformational process**

- Detailed analysis of demographic factors, looking forward
- Comprehensive – how do facilities, supply chain, etc. work together?
- Moving away from status quo
- Every company/project has different priorities…

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# Site Selection: Business/Consultant Perspective

**First Tier**

- Labor Availability and Costs
- Market Demand & Access
- Logistics & Transportation
- Suitable Land & Real Estate
- Economics (including Taxes & Incentives)

**Next Tier**

- Business Climate/Competitiveness
- Energy Availability & Cost
- Climate & Physical Conditions
- Quality of Life

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# Site Selection: Business/Consultant Perspective

**Most location decisions are driven by "First Tier" considerations**

**The role of Incentives**

- Incentives are a key differentiator between competing communities…
- …but generally shouldn't "wag the dog"
- Exception: Regional Projects
- States and localities derive a measureable benefit from the projects, and the associated economic and fiscal impacts, locating in their communities

**Companies are seeking well-designed incentive programs that work for both the business and the community to drive long-term, mutually beneficial economic development projects**

# Site Selection: Business/Consultant Perspective

## Incentives Compliance

- As the importance of incentives in site selection decisions increases, compliance is an increasingly key factor
  - Most companies recognize the need to demonstrate that they're meeting project commitments…
  - …but are concerned about "realizing" the benefit on which they've relied in making their project decision

## Primary concerns

- Changing project metrics
- Ongoing administrative requirements
- Technology gap

# Site Selection: Business/Consultant Perspective

## Incentives Compliance

- GASB 77
  - Businesses would rather not be subject to public/media scrutiny, but accept the “tradeoff” in participation in government programs
  - Transparency is a feature of most state programs, and participating companies are largely used to it
  - While GASB 77 will focus on local incentives, those incentives are also almost invariably subject to a public hearing and reporting process at the outset…
  - …primary change will be quantification and ongoing “revisit” of such transactions

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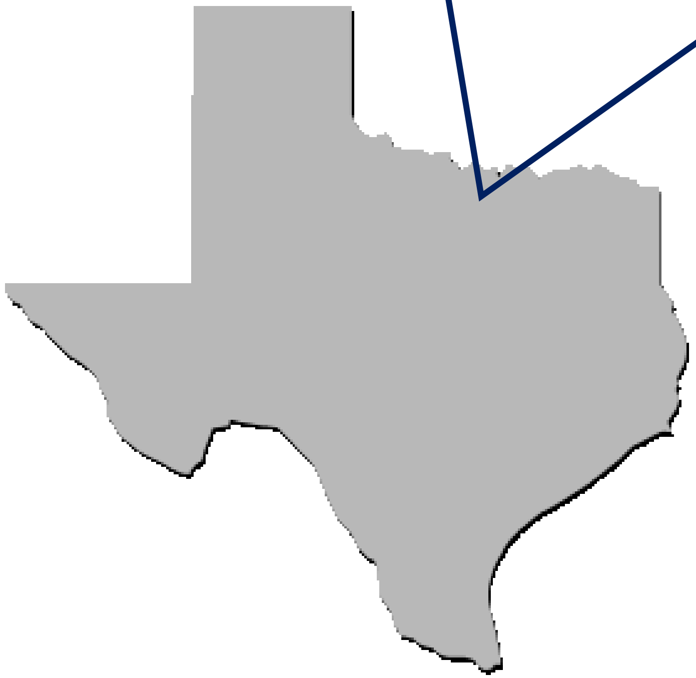
# State Financing Programs for Economic Development

## Tony Kaai CEcD

**President**
**Denison Development Alliance**
**Denison, TX**



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Denison
DEVELOPMENT ALLIANCE

# Tony Kaai, CEcD

***President***




Moving Forward. Kicking Back.

- History (16 years) of doing Tax Abatements
- Set Policy vs. Case by Case
- Spreadsheet Analysis
- Tax Committee Review
- Process Comments

Denison TEXAS

Moving Forward. Kicking Back.

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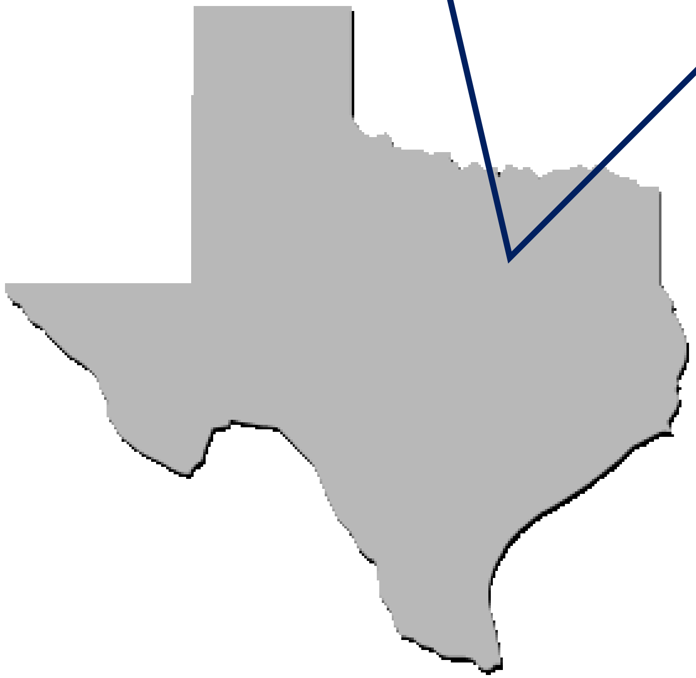
# State Financing Programs for Economic Development

## Danny Booth

**President**
**Economic Development, City of Terrell**
**Terrell, TX**



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# INCENTIVES

Terrell AMERICA® ECONOMIC DEVELOPMENT

Danny Booth

Terrell Economic Development Corporation

# INCENTIVES

Why give incentives?

What part do incentives play in the final selection process?

Tax abatement vs. 380/381 Agreements

# INCENTIVES

- Freeport Tax Exemption
- State incentives vs. local incentives
- EDC owned business parks

Terrell Economic Development Corporation
PO Box 97
Terrell, TX 75160
972-524-5704
danny@terrelltexas.com
terrelltexasedc.com

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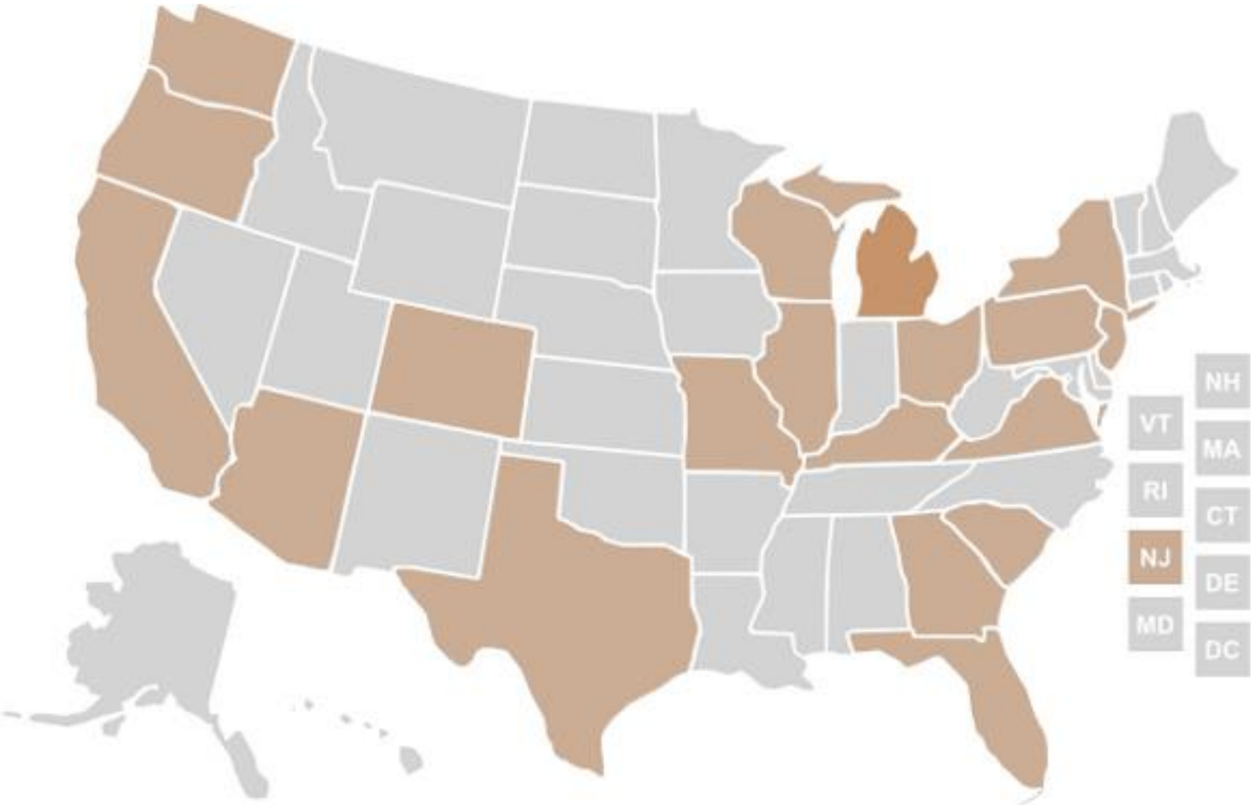
# Audience Questions

**CDFA State Financing Program Directory**

An online searchable clearinghouse of state economic development finance programs.



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# Upcoming Events

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September 28-29, 2016


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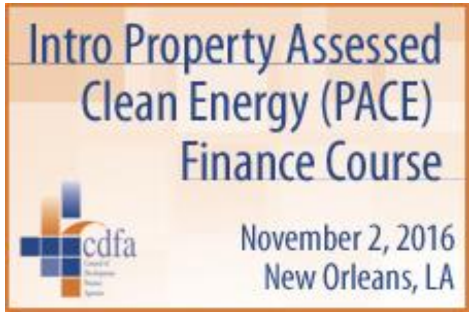


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Amy Swank
Vice President of Operation
512-480-8432
amy@texasedc.org

Katie Kramer
Vice President
614-705-1316
kkramer@cdfa.net