

**Governmental Accounting Standards Board (GASB) Statement No. 77,
Tax Abatement Disclosures**



Issues Resolution Memo No. 77-1

Issued: August 2015

BACKGROUND

GASB Statement No. 77, *Tax Abatement Disclosures*, was adopted by the University beginning July 1, 2016. This Statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments that reduce the reporting government's tax revenues. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity, in turn, takes a specific action that contributes to economic development or otherwise benefits the government or its citizens. The purpose of this Statement is to increase transparency in regards to tax abatements governments enter into and make the impact of these agreements more apparent to users of the financial statements.

DEFINE ISSUES

The University must determine whether GASB Statement No. 77 changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities.

AUTHORITATIVE GUIDANCE AND APPROACH

GASB Statement No. 77, paragraph 3, "establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both:

1. Agreements that are entered into by the reporting government and
2. Agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements."

GASB Statement No. 77, paragraph 4, states "for financial reporting purposes, a tax abatement is defined 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."

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IMPLEMENTATION

The University does not collect any taxes as a source of revenue, and as such does not enter into tax abatement agreements. We also considered whether the University has any other programs – such as tax increment financings, payments in lieu of taxes, or as-of-right agreements – that may meet the definition of a tax abatement. Based on discussions with UCOP’s Capital Assets Strategies and Finance, campuses are advised that Payment in Lieu of Taxes is NOT appropriate.

Local jurisdictions frequently seek payment from the University for a variety of things, not all of which are based on legal obligation, or actual services being provided. Requests for this type of funding frequently come when campuses update their Long Range Development Plans, and prepare Environmental Impact Reports. Some of those LRDP EIRs have been litigated, and other agreements have been negotiated to avoid litigation. Courts continue to clarify that CEQA (California Environmental Quality Act) is to evaluate environmental impact, and does not change funding authorities.

Therefore, we conclude that these arrangements in place do not meet the definition of a tax abatement.

CONCLUSION:

Implementation of GASB Statement No. 77 has no effect on the financial statements for the year ended June 30, 2016 as the University is not subject to GASB Statement No. 77. The University will continue to assess future impacts to the financial statements by identifying any future tax abatements, if applicable.