



OFFICE OF THE
STATE AUDITOR

Auditor Alert 2020-04

Date: October 13, 2020

Subject: Tax Abatement Disclosures and Foregone Revenue (GASB 77)

Overview

The Office of the State Auditor (Office) has previously provided guidance on recognizing revenue from a levy imposed by a governmental body but paid directly to other agencies in Auditor Alert 2014-3. After the issuance of Auditor Alert 2014-3, GASB 77 created additional disclosure requirements for reporting periods beginning after December 15, 2015. It appears that many local governments have not been disclosing foregone revenues as required by GASB 77. This alert seeks to highlight the requirements of this pronouncement and provide some practical examples.

Criteria

A government body is subject to the disclosure requirements of GASB 77 only when both the following conditions exist (see decision tree below):

1. A government, or a redevelopment agency with which the government participates, has an agreement with an individual or corporation.
2. The agreement contains any of the following provisions:
 - a. Foregone revenue is used to pay for all or part of an asset that will be owned by the individual.
 - b. Direct payment of foregone revenue to the individual, corporation or their creditor.
 - c. The government or redevelopment agency provides a guarantee of the individual's debt.

Disclosure Requirements

GASB 77 requires the following where applicable:

1. Disclosure by the government entering the agreement
 - a. Brief descriptive information, such as the revenue being forgone, the authority under which foregone revenue is provided, eligibility criteria, the mechanism by which revenue is forgone, provisions for recapturing foregone revenue, and the types of commitments made by foregone revenue recipients
 - b. The gross dollar amount of foregone revenue during the period
 - c. Commitments made by the government, other than to forego revenue, as part of the agreement.
2. Disclosure by governments foregoing revenue, but not a direct party to a development agreement
 - a. The names of the governments that entered into the agreements
 - b. The specific revenue being foregone
 - c. The gross dollar amount of revenue foregone during the period.

Conclusion

Participation with a redevelopment agency or the use of tax increment financing does not automatically trigger GASB 77 reporting requirements. However, if a redevelopment agency has an agreement that meets the GASB definition of a tax abatement, the redevelopment agency and any participating governments (counties, cities, school and special purpose districts, etc.) must make the required disclosures.

Resources

See GASB 77 and GASB Implementation Guide 2017 for definitions, terms, and additional guidance. Sample disclosures are available at resources.auditor.utah.gov.