January 31, 2017

Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 24-16ED  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Dear Mr. Bean:

We are pleased to have the opportunity to review and comment on the Governmental Accounting Standards Board’s (GASB or Board) Exposure Draft, Implementation Guide No. 201X-Y, Implementation Guidance Update – 201X (Exposure Draft).

Although we are supportive of the GASB’s efforts to provide guidance that clarifies, explains or elaborates on current GASB Statements, we have identified several concerns during our review of the Exposure Draft that we have included within this letter for your consideration.

Question 4.42

Our most significant concern with the Exposure Draft relates to Question 4.42 under section Statement No. 77, Tax Abatement Disclosures. This question reads as follows:

Q—A local government enters into an agreement with a real estate developer for the purpose of stimulating economic growth. Under the terms of the agreement, the developer will construct a building. The government will rebate to the developer incremental property tax revenues generated above a baseline established prior to the agreement, based on certain costs incurred by the developer related to the new building. The rebate to the developer is limited to no more than the amount of the incremental property tax revenues. Does this agreement meet the definition of a tax abatement in Statement 77?

A—Yes. Unlike the transaction described in Question 4.77 in Implementation Guide 2016-1, this agreement meets the definition of a tax abatement in Statement 77, although both may be labeled as a tax increment financing. The developer is promising to take the specific action of constructing a building for purposes of economic development, and the government is forgoing tax revenues to which it is otherwise entitled by returning some or all of the incremental property tax revenues to the developer. Although many tax abatements directly reduce the amount of taxes paid and do not involve the actual collection and return of taxes, the mechanism used to transact the abatement is not relevant to determining whether a transaction meets the definition of an abatement. Therefore, the fact that the government receives property taxes and subsequently rebates those tax receipts to the developer means that the government did, in substance, forgo tax revenues.
Based on the proposed answer to this question, the treatment of certain tax incremental financing district incentive transactions (TIF) would appear to be considered tax abatements which may result in additional ambiguity when it comes to evaluating, in general, whether a TIF meets the definition of a tax abatement under Statement 77. We suggest the Board provide additional examples of typical TIF arrangements and how the differing circumstances in those examples dictate whether or not they meet the definition of a tax abatement under Statement 77.

In addition, in situations where a TIF is determined to meet the definition of a tax abatement, the proposed answer does not clearly identify when existing tax abatement disclosures and recognition should be applied. For example, due to timing differences between the receipt of the revenue and the recording of the expenditure transaction, revenue may not be reduced in the year of receipt but subsequently rebated based on the costs incurred by the developer. The question indicates that the abatement of the property taxes will occur “based on certain costs incurred by the developer related to the new building.” However, the property taxes that would be rebated may be received before those costs are incurred. Further clarification on when the tax abatement should be recognized is needed to address the tax abatement should be recognized when revenue is received or when the costs have occurred that triggers the repayment of the incremental taxes. Finally, clarification of whether net or gross reporting in the financial statements is needed to address any diversity.

**Question 4.32**

*Question 4.32 under the topic Pensions – Plan and Employer Accounting Reporting reads as follows:*

**Q**—A primary government and its component unit provide pensions through the same cost-sharing pension plan. How should each government determine the net pension liability to report in its stand-alone financial statements?

**A**—Paragraph 11 of Statement 68 indicates that for classification purposes, a primary government and its component unit are considered to be one employer. However, for purposes of recognition and measurement, the primary government and component unit should be considered separate employers, and each should apply the requirements of Statement 68 for cost-sharing employers.

We concur with the rationale of the answer to this question that clarifies the presentation of a primary government and its component unit that both participate in the same cost-sharing pension plan. This is a situation that occurs often, and the additional guidance is appreciated. We also suggest the Board include a statement that indicates the guidance applies not only to recognizing the net pension liability in the financial statements, but also to including the associated notes and required supplementary information as required by Statement 68 in the component unit’s stand-alone financial statements. Therefore, the primary government and its component units would each report its proportionate share of the collective net pension liability and would follow the requirements of Statement 68 paragraphs 48–82 (for cost-sharing employers that do not have a special funding situation) or paragraphs 92–96 (for cost-sharing employers that have a special funding situation).
Question 4.38

Question 4.38 under the topic Accounting and Financial Reporting for Certain Investments and for External Investment Pools reads as follows:

Q—A local government has an investment position in an external investment pool. How should the local government’s investment position be categorized within the fair value hierarchy for purposes of the note disclosure requirement of paragraph 81a(2) of Statement No. 72, Fair Value Measurement and Application?

A—if the external investment pool is compliant with paragraph 4 of Statement No. 79, Certain External Investment Pools and Pool Participants, and for financial reporting purposes elects to measure all of its investments at amortized cost, the local government’s investment position is not measured at fair value. Instead, it is measured at amortized cost in accordance with paragraph 41 of Statement 79 and, thus, should not be categorized within the fair value hierarchy.

If, instead, the external investment pool generally measures its investments at fair value in accordance with paragraph 5 of Statement 79 or paragraph 16 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended, the local government’s position is measured at fair value in accordance with paragraph 41 of Statement 79. This is the case regardless of whether the pool transacts with participants at a floating net asset value per share or a fixed net asset value per share (for example, $1.00). Similar to investments that are measured in accordance with the provisions of paragraphs 71–74 of Statement 72, positions in external investment pools that are measured at fair value should not be categorized within the fair value hierarchy for purposes of paragraph 81a(2) of Statement 72.

Based on the last sentence of the answer provided, “Similar to investments that are measured in accordance with the provisions of paragraphs 71–74 of Statement 72, positions in external investment pools that are measured at fair value should not be categorized within the fair value hierarchy for purposes of paragraph 81a(2) of Statement 72.” It appears that the reader is being led to the conclusion that although fair value leveling disclosures are not required, Net Asset Value (NAV) disclosures as described in paragraph 82 of Statement 72 are required based on the type of investment position described. We recommend including a reference to the requirement of these NAV disclosures, or any other required disclosures, for investments in external investment pools measured at fair value, in the answer.

Appendix B - Question 4.22 in Implementation Guide 2016-01

Question 4.22 in Implementation Guide 2016-1 was included within Appendix B, Amendments to Previously Issued Questions and Answers – Marked for Changes however was not included within the body of the Exposure Draft. We recommend that the Board determine whether this question is intended to be included within the body of the Exposure Draft or if it should be removed from Appendix B. Further, the change identified within this question references Illustration B1, however, there was no illustration B1 included within the Exposure Draft. However, there is an illustration titled C1.

In summary, we want to reiterate our support of the Board’s initiatives to provide guidance that clarifies, explains or elaborates on current GASB Statements. While we feel the Exposure Draft is an improvement to existing GASB guidance, we believe the concerns provided in this letter warrant further consideration by the Board.
Please contact Scott Lehman at (630) 574-1605 or scott.lehman@crowehorwath.com or Kevin Smith at (214) 777-5208 or kevin.w.smith@crowehorwath.com should you have any questions.

Cordially,

Crowe Horwath LLP