

California Society of Municipal Finance Officers

GASB Update—Cure for the GASB Blues

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

Effective Dates—June 30, 2017

- 2017
 - Statement 73—Pensions—Employers (outside the scope of Statement 68)
 - Statement 74—Other Postemployment Benefits (OPEB) plan reporting
 - Statement 77—Tax abatements disclosures
 - Statement 78—Pensions provided through certain multiple-employer defined benefit pension plans
 - Statement 80—Blending requirements for certain component units
 - Statement 82—Pension Issues
 - Implementation Guide—2016-1

Effective Dates—June 30, 2018, 2019, and 2020

- 2018
 - Statement 75—OPEB—Employers
 - Statement 81—Irrevocable split-interest agreement
- 2019
 - Statement 83—Certain asset retirement obligations
- 2020
 - Statement 84—Fiduciary activities

Expected Effective Dates—June 30

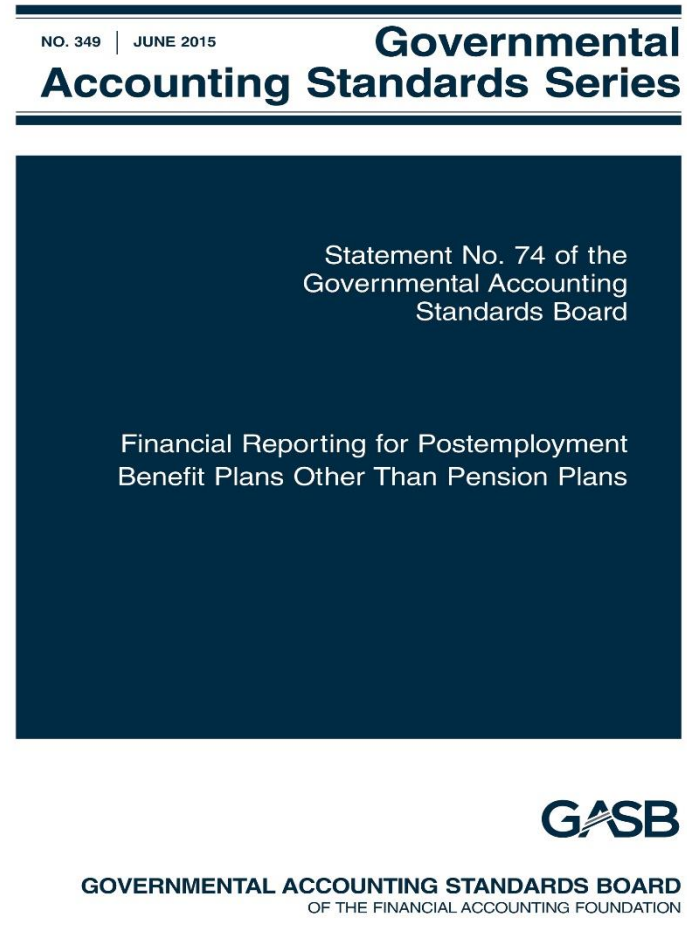
- 2017
 - OPEB Plan Implementation Guide
- 2018
 - OPEB Employer Implementation Guide
 - Certain Debt Extinguishment Issues
 - Omnibus (primarily OPEB—bring in line with Statements 78 and 82)
 - Implementation Guide Update—2017
- 2020
 - Leases?

Pension Issues: Statements 78 and 82

What Pensions Issues Were Raised by Stakeholders After the Issuance of Statements 67, 68, and 70?

- Taft-Hartley Plans (and similar plans) was spun-off into a separate project
 - Statement 78
- Covered-employee payroll
- Treatment of employer–paid member contributions
- Deviations from Actuarial Standards of Practice (ASOPs)
- Application of administrative costs as a reduction of discount rate
- Timing of the measurement of liability
- Disclosure of annual required contribution (ARC) as a benchmark

Postemployment Benefit Plans Other Than Pension Plans: Statements 74



What Issues Are Addressed in Statement 74 ?

- Scope includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria
- Also addresses assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are *not* administered through trusts that meet the criteria
 - Assets reported as assets in employer's governmental/proprietary funds
 - Assets held for other governments reported in an agency fund
- Few changes from Statement 43 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of defined benefit liabilities of employers

Other Postemployment Benefits—Employer: Statement 75

What Is the Fundamental Approach Employed in Statement 75?

- Fundamental approach for OPEB is the same as required for pensions in Statement 68
 - Viewed in the context of an ongoing, career-long employment relationship
 - Focus on the cost to taxpayers over time of providing government services
 - Accounting-based versus funding-based approach to measurement

What Are Defined Benefit OPEB Liabilities?

- Liability to a defined benefit plan
- Liability to employees for OPEB
 - Consistent approach applied to all employers regardless of whether OPEB is administered through trust in which the specified criteria are met
 - Recognize:
 - OPEB liability
 - OPEB expense
 - Deferred outflows/inflows of resources related to OPEB

How Is the Liability to Employees for OPEB Measured?

- Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service
- Is OPEB administered through a trust that meets the specified criteria?
 - Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position)
 - No—recognize total OPEB liability

Total OPEB Liability: Measurement Approach

- Three broad steps
 - Project benefit payments
 - Discount projected benefit payments to actuarial present value
 - Attribute actuarial present value to periods
- Methods and assumptions
 - Generally, assumptions in conformity with Actuarial Standards of Practice
 - Fewer alternatives than in Statement 45 for methods and assumptions for GAAP reporting purposes
 - No changes to actuarial methods and assumptions used to determine funding amounts would be required

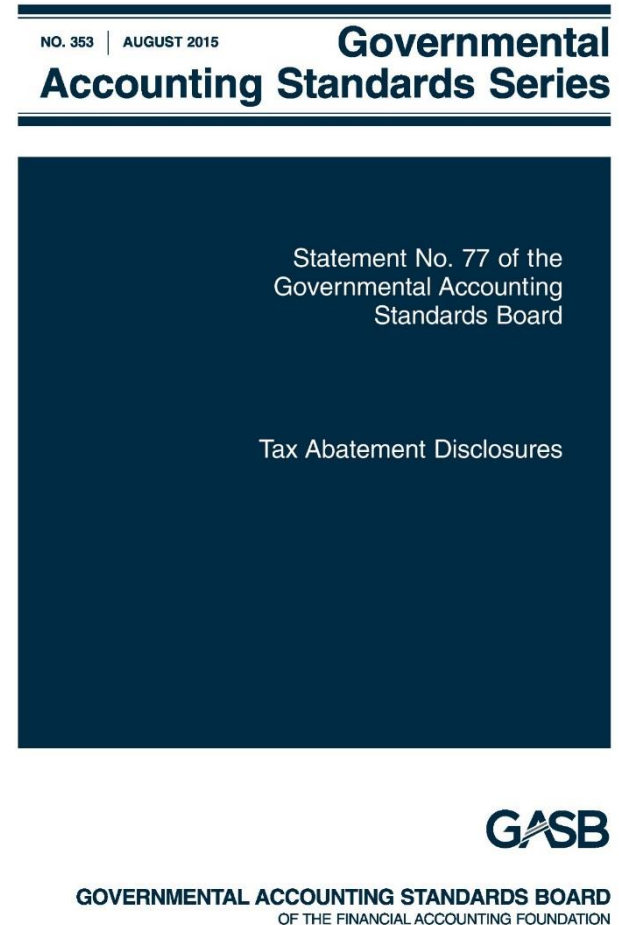
How Is the Timing of Liability to Employees for OPEB Determined?

- Measurement date
 - As of date no earlier than end of prior fiscal year
- Actuarial valuation date of total OPEB liability
 - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
 - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
- Should reflect changes between the date of the actuarial valuation and the measurement date

What Are the Basic Disclosure Requirements for OPEB?

- Similar to those required for pensions
- Disclosure of effect on net OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent plans: 10-year RSI schedules for changes in the net OPEB liability, ratios, and actuarially determined contributions (statutorily or contractually determined contributions, if no actuarially determined contribution is calculated)
- Cost-sharing plans: 10-year RSI schedules of statutorily or contractually determined contributions

Tax Abatement Disclosures: Statement 77



What Is the 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:
 - One or more governments promise to forgo tax revenues to which they are otherwise entitled and
 - 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.

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

What Are the General Disclosure Principles?

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

How Should Individual Abatements Disclosures Be Determined?

- 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

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

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	✓	✓

Certain Asset Retirement Obligations: Statement 83

What Is the Definition of an ARO?

- Asset retirement obligation—A legal obligation associated with the retirement of a capital asset
 - Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)

What Is In the Scope of Statement 83?

- Retirement of tangible capital assets, for example:
 - Nuclear power plant decommissioning
 - Coal ash pond closure (those that are not landfills)
 - Contractually required land restoration such as removal of wind turbines
 - Other similar obligations
- Disposal of a replaced part that is a component of a capital asset
- Environmental remediation associated with a requirement of tangible capital assets that results from the normal operations of those tangible capital assets

What Is Excluded From the Scope of the Statement 83?

- Obligations associated with:
 - Plan to solely sell or otherwise dispose of a tangible capital asset
 - Preparation of a tangible capital asset for an alternative use
 - Asbestos removal that result from the other-than-normal operation of a tangible capital assets
 - Maintenance, rather than retirement, of a tangible capital asset
- Cost of replacement part that is a component of a capital asset
- Landfill closure and postclosure care obligations, including those not covered by Statement 18
- Conditional obligations to perform asset retirement activities

How Should AROs Be Recognized and Measured?

Initial Recognition	ARO liability when incurred and reasonably estimable—measured based on the best estimate of the current value of outlays expected to be incurred	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none">• At least annually remeasure the current value for the effects of inflation or deflation• At least annually evaluate relevant factors to determine if there is a significant change in the estimated outlays	Recognize a reduction as an outflow of resources (for example, expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset

Statement 84: Fiduciary Activities

Why Did GASB Address Fiduciary Activities?

- Wide diversity in practice
 - One of the last great frontiers in governmental accounting
 - Similar activities are not reported on a comparable basis
 - A single activity could be reported in a governmental fund, a fiduciary fund, or not reported at all

When Should a Government Report Assets in a Fiduciary Fund?

- Four paths to making this determination:
- Component units that provide postemployment benefits
- Component units that do not provide postemployment benefits
- Postemployment benefit arrangements that are not component units
- All other activities

How Should Component Units That Provide Postemployment Benefits Be Classified?

- Fiduciary if (1) the activity meets the definition of a component unit in Statement 14, as amended, and (2) it is one of the following arrangements:
 - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
 - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

How Should Other Component Units Be Reported?

- Fiduciary if (1) the activity meets the definition of a component and (2) it has one or more of the following characteristics:
 - The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
 - The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
 - The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

When Does a Government Have Administrative Involvement or Direct Financial Involvement?

- Examples of administrative involvement
 - If it monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity
 - If it determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
 - If it has the ability to exercise discretion in how assets are allocated
- Example of direct financial involvement
 - If it provides matching resources for the activities

How Should Postemployment Benefits That Are Not Component Units Be Reported?

- Fiduciary if (1) the government controls the assets of the arrangement meets the definition of a component unit in Statement 14, as amended, and (2) the arrangement is one of the following arrangements:
 - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
 - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

When Is a Government Controlling Assets?

- A government controls the assets of an activity if:
 - The government holds the assets.
 - The government has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

When All Other Activities Be Reported as a Fiduciary Fund?

- Fiduciary activity if all three of the following are met:
- The government controls the assets
- Those assets are not derived either:
 - Solely from the government's own-source revenues
 - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- One of the three following criteria

All Other Activities (continued)

- The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
- The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
- The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

What are the Fiduciary Fund Classifications?

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.
 - External portions of investment pools that are *not* held in trust should be reported in a separate column under the custodial fund umbrella

How Should Stand-Alone Business-Type Activities Report Fiduciary Activities?

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

Questions?

- Visit www.gasb.org