Letter of Comment No. 131
File Reference : 34-E
Date Received: 10/11/11

CPS ENERGY

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Director of Research and Technical Activities
Project No. 34-E
Governmental Accounting Standards Board
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CPS Energy is an electric and gas utility company owned by the city of San Antonio, Texas. As a municipally owned utility, CPS Energy complies with all applicable Governmental Accounting Standards Board (GASB) pronouncements. The purpose of this letter is to comment on the GASB's recently issued exposure drafts titled *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

There are several areas of concern for CPS Energy related to the proposed guidance provided in the exposure draft:

**<u>Transition Rules</u>**

The proposed pension statement provides no clear guidance regarding the transition from current pension guidance. While the exposure draft provides information on how to account for changes in the pension liability, the guidance is unclear on the operating statement impact from the net pension liability that exists as of the effective date. This negates consistency in reporting the net pension liability, as the vagueness of the transition rules in this very complex guidance leaves this important aspect of the change in accounting treatment open to interpretation and professional judgment.

Further, to accurately apply retroactive application would require new actuarial calculations to be performed as prescribed in the proposed guidance going back

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several years. This would present an undue burden in time and administrative cost to accurately determine the deferred inflows / outflows applicable as of the effective date.

Proposal: We believe the less burdensome and costly approach for recognition of the expense associated with the net pension liability that exists at transition would be to provide a phase-in of the change in the expense recognition rules by allowing ongoing amortization under prior guidance for the net pension liability that exists at the effective date (i.e., 20-year amortization).

**Discount Rate**

We understand GASB's proposal to apply a blended discount rate to calculate the present value of future pension benefits when projected plan assets are not sufficient to cover projected benefits. However, we believe that the use of a blended tax-exempt municipal bond index is not the appropriate base to apply and would result in an overstated total pension liability, especially for trusts that have had historically higher short, interim and long-term rates. Such an adoption of lower discount rates would be very punitive since state and local governments are prohibited by federal law from issuing tax-exempt bonds to finance pension obligations.

Proposal: It would be more appropriate to first consider historical performance and blend that rate with "safe" investments (i.e., taxable municipal index). Both should focus on average 30-year rates.

**Effective Date**

Currently, the final statement is not expected until June 2012, with a proposed effective date of June 15, 2012, for plans with unrestricted assets of at least $1 billion. For governmental entities that are component units of another government and whose fiscal years are such that an early implementation would

be required, this would leave a short window between final release of the guidance and the effective date, which would be unduly burdensome.
Proposal: We believe the effective date should be delayed to December 2013 to give all employers ample time to carefully review the new guidance before the effective date.

**Disclosure Requirements**
Substantial additional disclosures are required under the proposed guidance, including detailed information on the expected rate of return on plan investments, the individual components of the current-period pension expense, explanations of the changes in the deferred outflows of resources and the deferred inflows of resources during the current period, the policy for determining contributions, detailed information on the discount rate and how it was calculated, a sensitivity analysis of the impact on net pension liability of a one percentage point increase and decrease in the discount rate, and detailed information about the changes in the net pension liability for the past 10 years. Again, this requirement would place an undue burden on governmental entities, particularly with such a short time frame from issue date to the effective date of the new guidance.

Proposal: Again, we believe the effective date should be delayed to give employers ample time to prepare for the substantial additional disclosures required by this guidance.

**Statement of Plan Net Position**
The exposure draft description of what is to be included on the Statement of Plan Net Position does not refer to deferred outflows or inflows of resources in paragraphs 15 through 20, but includes the addition of deferred outflows and the subtraction of deferred inflows of resources in the description of "Net Position" described in paragraph 21. It is not clear when the Plan would incur and/or need to record such deferred items.

Proposal: Provide more clarity regarding the reference to deferred outflows and inflows of resources in the Net Position description and/or provide a description of when these would be applicable.

Thank you for the opportunity to participate in the proposed pension guidance due process by allowing us to provide comments on the issues that concern us.

Sincerely,

Paula Gold-Williams

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