Letter of Comment No. 137
File Reference: 34-E
Date Received: 10/11/11

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October 7, 2011

Director of Research and Technical Activities
Project No. E-34
Governmental Accounting Standards Board
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To the Director of Research and Technical Activities:

The City of Brunswick is a participating employer in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multi-employer plan with approximately 3,700 employers. I am responding to the Governmental Accounting Standards Board (GASB) invitation to provide comments on its Exposure Draft, Accounting and Financial Reporting for Pensions and amendment of GASB Statement No. 27. This Exposure Draft addresses changes in the way participants in government sponsored pension plans account for and report pension assets and liabilities in their annual financial statements.

I appreciate the lengthy deliberative process undertaken by the GASB Board that culminated in the Exposure Drafts issued in June 2011, and understand the intent that the new financial reporting proposals are designed to standardize how participants in public pension plans disclose pension information in their financial statements. I appreciate your efforts to make financial reporting more transparent; however, I believe there are several challenges associated with implementing the proposed standards for multiple employer cost sharing plans.

1. **Structure of pension plan per state statute.** As noted above, OPERS is a cost-sharing multi-employer plan in the State of Ohio. Employer participation in the plan is established by state statute that also dictates employer contribution rates and the benefits to be received by the City employees. The City has no control over the contribution rates assessed and doesn't control the benefits offered or how they are calculated. Any changes to the existing contribution rates or benefit levels require action by the state legislature. Ultimately if there was a plan termination, default, or some other unlikely event, the state legislature would need to determine the final dispensation of any unfunded liability. Thus, the assignment of the liability, in my opinion, would be misleading given the structure within our state. This raises a question regarding the application of accounting standards that are not in accordance with state statute.

   OPERS has the authority to request contribution and benefit changes for legislative consideration and action, positioning the pension system to be in control of these variables. I recommend that the net pension liability be reflected on the financial statements of the pension system where the assets for future pension benefits are reported. I believe any allocation of the liability to the employer is arbitrary and misleading, and would suggest additional note disclosures of plan system information on the employers' financial statements. Just as private employers don't record their share of defined benefit Social Security or cost sharing net pension liabilities on their financial statements, I feel it is inappropriate for public employers to be subject to different accounting standards.

If you happen to be a proponent of this exposure draft language and its intent, then why is it so narrow focused? There are also other unfunded obligations that exist, such as unfunded infrastructure obligations but these types of unfunded items are not addressed. This exposure draft opens the door to a major overhaul in how unfunded obligations are treated and reported in general. Where would every unfunded obligation stop? How would they be measured? Should they be reported? On whose statements should they be reported? Are the unfunded obligations fact or opinions? Would financial users be misled? When I view this exposure draft, I am thinking in terms of a much broader picture and believe a change from the existing standard is not warranted.

2. **Audit of proportionate share of the net pension liability and pension expense**. I understand OPERS will provide us with our proportionate share of the net pension liability and pension expense. I also understand the calculation will be performed with the help of actuaries and include certain roll-forward calculations to derive balances as of our fiscal year end. These liabilities can represent significant items on employer financial statements, particularly those of small employers. With 3,700 participating employers, how will employers validate the proportionate share calculated, and how will the auditors of these 3,700 employers obtain audit evidence to issue an opinion on these financial statements? I am concerned that the liability, if allocated, would not be reliable and would result in significant expense, especially relative to the City's small audit budget.

3. **Timely availability of proportionate share of net pension liability and pension expense**. I understand the calculation of the proportionate share of net pension liability and pension expense takes time and requires the involvement of specialists, such as actuaries. Employers with the same fiscal year end as OPERS typically can issue financial statements within a few months of year end. However with the additional work involved in calculating the proportionate shares of pension expense and net pension liability for 3,700 employers, there is likely to be a significant delay in obtaining these values from OPERS for inclusion in our employer financial statements. With the time lag involved in calculating our proportionate share, how will we be able issue our financial statements and other key financial reports as timely as we have done in the past? Any delays in financial reporting information from outside sources could potentially cause higher interest rates, non-compliance with reporting requirements, debt covenants, etc. Involving the measurement and reporting of a liability for 3,700 employers versus reporting on one entity will certainly cause significant delays and could potentially cause financial harm to the 3,700 employers.

4. **Bond Rating.** The City pays its pension contributions on time, manages its budgets in an effective manner, and has a favorable bond rating. Our proportionate share of the net pension liability could be a significant number on the City's balance sheet, with the potential to transform us from reporting sound financial results to reporting poor results. The potential impact on our bond rating could also significantly impact our operating expenses for costs and liabilities over which we have no control. Furthermore, any measured unfunded pension liability, in reality, is an opinion not necessarily a liability. Decisions could always be made by OPERS/State Legislature to alter plans, change direction, etc in essence erasing any previously measured unfunded liability on the 3,700 members financial statements. Reflecting an unfunded pension liability for all the years prior to any such decision will ultimately just increase costs of the 3,700 employers and the end result will still be the same.

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I believe the changes recommended by the proposed accounting standards will result in reporting data that is too volatile to be used as a benchmark for employer performance. Prudent fiscal management at the local level can also be obscured by this proposed standard.

Reporting of pension expense and liabilities that are not representative of the City's actual experience could lead to short-sighted decisions and ultimately lead to confusion and a lack of trust by the public. In addition, as the financial status of governmental entities changes, bond ratings – which impact the cost of debt service – could also be adversely affected. I believe the proposed changes will lead to significant lags in financial reporting, dissemination of confusing or inaccurate information and cause significant additional costs.

Respectfully,

Todd R Fischer

Todd R. Fischer
Finance Director
City of Brunswick, Ohio