

City of Reynoldsburg

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Director of Research and Technical Activities
Project No. E-34
Governmental Accounting Standards Board
401 Merritt 7, Box 5116
Norwalk, CT 06856-5116

To the Director of Research and Technical Activities:

The City of Reynoldsburg is a participating employer in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multi-employer plan with approximately 3700 employers. We are 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. The Exposure Draft addresses changes in the way participants in government sponsored pension plans account for and report pension assets and liabilities.

We feel that these proposed standards may work well with single employer and agent multi-employer plans, but they appear to be in conflict with the purpose of pooling assets and liabilities in a cost-sharing multi-employer plan, and with the State statutes that govern our plan.

OPERS is a cost-sharing multi-employer plan in the State of Ohio. The employer participation in the plan is established by state statute that also dictates employer contribution rates and the benefits to be received by our employees. As an employer, we have no control over the contribution rates assessed and we do not 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 is 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. We feel reflecting the net pension liability on the financial statements of the pension system where the assets for future pension benefits are also reported is a better alternative. Any allocation of the liability to the employer is arbitrary and misleading, and would suggest additional note disclosures of plan system information on the employer's financial statements. Just as private employers do not record their share of defined

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benefit Social Security or cost sharing net pension liabilities on their financial statements, we feel it is inappropriate for public employers to be subject to different accounting standards.

If this statement does go through, we understand that OPERS would be required to provide us with the proportionate share of the net pension liability and pension expense. This will be calculated with the help of actuaries and include certain roll-forward calculations to derive balances as of our fiscal year end. There is a possibility these liabilities can represent a significant item on our financial statements. How are our auditors supposed to audit these numbers? This could require significant additional work and expense for our city. We also have concerns over the timeliness of receiving this information and how it will affect completing our financial statements within our required time frames.

Currently, the practice of reporting pension expense based on the statutorily required employer contributions allows our City to establish accurate, balanced budgets with limited volatility. In general, employer budgets are established for the upcoming year well in advance of the end of the current year. With the expected volatility of the new pension expense, it will be difficult to establish our annual budgets accurately.

The calculation of the proportionate share means that smaller governments, such as ours, with a stable workforce will share in the volatility of staffing changes by larger governments that are not representative of our individual experience. In addition, we believe that users of our financial statements will become confused when our contributions no longer match our annual pension expense and the pension expense is not reflective of our employee experience.

The City of Reynoldsburg has always paid its pension contributions on time and managed its budgets in an effective manner, resulting in favorable bond ratings. Our proportionate share of the net pension liability is expected to be a significant number on our 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 significantly impact our operating expenses for costs and liabilities over which we have no control.

We are in agreement with GASB that there is a need for transparency and accountability for pension plans, employers and plan sponsors. However, we feel that this plan will lead to confusion for our citizens, misrepresentation of our true liability to the pension plan and severely impact our ability to obtain cost effective debt. We oppose the shift that eliminates the connection between the accounting requirements and the actual liability that employers have for funding of pension plans in accordance with each states statutes.

Sincerely,

Joni Crawford, Accounting Manager
City of Reynoldsburg, Ohio