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September 13, 2011

Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Subject: Response to GASB Exposure Draft for
Amendments to Statements No. 25 and 27

To Whom It May Concern:

The Small School Districts' Association (SSDA) opposes the proposed transfer of the California State Teachers' Retirement System (CalSTRS) pension unfunded obligation from the State of California's financial statements to the Local Education Agencies (LEA) financial statements.

The exposure draft's net pension liabilities provisions include the requirement that LEA employers recognize on their balance sheets each employer's proportional share of the CalSTRS pension plan's total pension liability. SSDA estimates that the debt transfer could be as much as \$8,000 per pupil. This is more than the annual per pupil revenue for most small school districts.

Additionally, the exposure draft's recommendation on the discount rate for valuing the pension fund obligation could increase that obligation significantly. School districts could face a further debt increase beyond the possible \$8,000 per pupil. Again, this is a debt that would be on school districts' balance sheets and a debt that is not within school districts' ability to control.

California school districts already are subject to \$9.3 billion annual state funding deferrals from one year to the next. In addition to the inter-year deferrals, the schools have up to \$4.5 billion in intra-year state aid deferrals. Schools need borrowing ability to maintain programs until the deferrals are paid. The exposure draft's proposals will increase borrowing costs at a time when schools cannot afford new costs.

The transfer from the state's balance sheets to LEA balance sheets will increase the school district's assumed debt. The probable effect of that debt increase will be to increase the cost of borrowing for making payroll.

The State of California is the plan sponsor for CalSTRS. SSDA believes that the plan sponsor which makes the contribution and benefit determinations should be responsible for the financial outcomes and results of those decisions. We believe the proper accounting standard is that the responsible plan sponsor should reflect the outcome of their decisions on their balance sheets, rather than transfer the results of their decisions.

The proper affixing of fiscal responsibility to the appropriate political entity is an important governmental accounting principle. That principle should be maintained and emphasized in the development of any changes to Statements 25 and 27. We believe that principle would be violated if the LEAs balance sheets had to include debts over which they have no control.

For this reason, we request that California LEAs not be required to include recognition of any of the California State Teachers' Retirement System's unfunded actuarial liability on school districts' balance sheets.

Thank you for your consideration.

Sincerely,



David L. Walrath
Legislative Advocate
Small School Districts' Association