County Commissioners Association of Ohio

Serving Ohio Counties Since 1880

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Director of Research and Technical Activities
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Governmental Accounting Standards Board
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To the Director of Research and Technical Activities:

The County Commissioners Association of Ohio represents Ohio's 86 Boards of County Commissioners and the Cuyahoga and Summit County Executives and County Councils. County Employees in Ohio's 88 counties participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multi-employer plan with approximately 3,700 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. 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.

We 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. We appreciate efforts to make financial reporting more transparent; however, we understand there are a number of significant challenges associated with implementing the proposed standards for multiple employer cost sharing plans like OPERS. Though these proposed standards may work well with single employer plans, they appear to conflict with the purpose of pooling assets and liabilities in a cost sharing multi-employer plan, and with the state laws governing these plans.

1. **Structure of OPERS under Ohio Law.** As noted above, OPERS is a cost-sharing multi-employer plan in the State of Ohio. County government participation in the plan is established by state law that also establishes employer contribution rates and the benefits to be received by county employees. As counties, we have no control over the contribution rates assessed. Likewise, counties 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 Ohio General Assembly. 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 to a county is

misleading given the structure here in Ohio. This raises a question regarding the application of accounting standards that are not in accordance with state statute.

OPERS and counties may request contribution and benefit changes for legislative consideration and action, positioning the pension system to be in control of these variables. We recommend that the net pension liability be reflected on the financial statements of the pension system where the assets for future pension benefits are also reported, not within the financial statement of each county. We believe any allocation of the liability to a county is arbitrary and misleading, and would suggest additional note disclosures relating to OPERS on the financial statements of the 88 county governments in Ohio. Private employers do not record their portion of defined benefit Social Security or cost sharing net pension liabilities on their financial statements, so why should this be required of our 88 counties? We believe it is inappropriate for counties in Ohio to be subject to different accounting standards.

2. **<u>Audit of proportionate share of OPERS net pension liability and OPERS pension expense</u>**. We understand OPERS will provide us with our proportionate share of the net pension liability and pension expense. We also understand the calculation will be performed with the help of actuaries and include certain roll-forward calculations to derive balances as of the end of the county fiscal year. These liabilities can represent significant items on employer financial statements, particularly those of smaller counties. The question that arises is: How will Ohio's 88 counties validate the proportionate share calculated by OPERS, and how will our auditors obtain audit evidence to issue an opinion on county financial statements? We are concerned that the liability, if allocated, would not be reliable and would result in significant increase in county audit expenses at a time of dwindling state revenue support of county government here in Ohio.

3. **<u>Timing of the availability of the county proportionate share of OPERS net pension liability and OPERS pension expense</u>**. We 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 county financial statements. With the time lag involved in calculating the county proportionate share, we expect delays in the ability of counties to issue their financial statements and other key financial reports in as timely a manner as are now possible.

4. **<u>Fiscal planning and budgeting</u>**. The current practice of reporting pension expense based on the statutorily required county contributions allows counties to establish accurate, balanced budgets with limited volatility. In general, county budgets are appropriated 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 proportionate shares means that those counties with a relatively stable workforce will share in the volatility of staffing changes by other governments who are also members of OPERS and this will not be representative of the each county's individual experience. Also, due to the structure of the system we understand that smaller governments will be subsidizing those employers with multiple divisions resulting in a disproportionately higher liability. A big concern is that users of county financial statements will become confused when county contributions no longer match the county annual pension expense and the county pension expense is not reflective of county employee experience.

5. **Bond Rating.** Most Ohio counties have paid their pension contributions when due and managed its budgets in an effective manner, resulting in favorable bond ratings. In many counties, the county proportionate share of the net pension liability is expected to be a significant number on the county balance sheet. This could change county financial reports from reporting sound financial results to reporting poor results. The potential impact on county bond rating could significantly impact county operating expenses for costs and liabilities over which counties could have no control and could result in higher interest costs for new bond issues.

The changes recommended by the proposed accounting standards will result in reporting data that is too volatile and not accurate as it applies to individual counties in Ohio. We believe it will give a distorted view of individual county government performance. Prudent fiscal management by individual counties can also be obscured by the actions of other participating employers. Reporting of county pension expense and liabilities that are not representative of the county's actual experience could lead to short-sighted decisions and ultimately lead to confusion and a lack of trust of county government by the public.

We do not object to the need for increased transparency and accountability for pension plans, employers and plan sponsors. However, we oppose this shift in reporting requirements that eliminates the connection between the accounting requirements and the actual liability that counties have for funding of OPERS as specified in Ohio law.

Respectfully,

Larry L. Long
Executive Director