

House Bill 2365 Protects Texans From Far-Reaching Consequences of Government Accounting Rule

By Texas Comptroller Susan Combs
State Senator Robert Duncan
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In 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45), creating accounting standards for governmental entities' "other post employment benefits" (OPEB). We are concerned that an arbitrary accounting rule, handed down by a board with no checks or balances, will adversely impact health care benefits for our state retirees.

GASB 45 requires Texas state and local governments to recognize and record retiree health insurance benefit costs as a financial obligation, even if there is no such legal obligation. On the surface this appears to be a fairly innocuous and ministerial requirement. However, because the rule requires these costs to be measured and reported for a period up to 50 years in the future, the requirement has a far-reaching and potentially damaging affect.

Consider your own individual health care costs and those of your family for this year alone. Now try to predict how your health may change during the next 50 years and project the associated cost. It's an impossible figure to determine or to guess. Despite this fact, now healthy debate in both the House and the Senate, contemplate opening a trust account and depositing that total amount today. For most people, attempting to do this would be financially impossible or would at least cause serious fiscal hardship. GASB 45 has put state and local governments

around the country in this untenable position.

Retirement health benefits for the state of Texas and most Texas governmental entities are not constitutionally mandated or contracted programs. Instead, the programs are reviewed and renewed during the regular budgeting process.

Accounting experts tell us GASB 45 — this nationally developed, voluntary accounting standard — conflicts with Texas law. We explored this issue fully during the recently concluded legislative session. There was We learned the American Academy of Actuaries believes the rule would damage the credibility of a balance sheet and add unwarranted volatility. Many actuaries recommend predicting liabilities for no more than five to ten years into the future.

The rule didn't pass the GASB board unanimously. One dissenter, Paul Riley Wood, indicated it would mean governments should pre-fund or book items that do not require pre-funding or booking. This is precisely the concern we have in Texas. We appreciated the appearance of Carl Johnson, a main author of the GASB 45 statement, during our legislative discussions. We asked how this principle was developed and requested an explanation of the rule's underlying theory. His response was that it's what the board concluded based on "all of the facts and communications." *Ipsa dixit*, the Latin phrase for "because I say so." Contrary to the GASB board's out-of-state hearing process, our facts and communications are laid out in

full view. Texas retiree health benefits are budget - not contract - based, and that process is clearly visible every budget cycle, when the Legislature and other local governmental entities draft their budgets Texas budgets within available revenue; however, what we can afford as a state changes each biennium. For example, in 2003 the Legislature faced a \$10 billion shortfall. Consequently, benefits were reduced. Texas is a pay-as-you-go state, and there is no way to accurately report that changing figure on a balance sheet. Susan Spataro, an accounting expert and Travis County, Texas, auditor for the past 18 years, investigated what GASB 45 would mean for her county. She obtained two opinions from professional accounting firms on the cost of pre-funding retirees' health insurance benefits based on the requirement of projecting the cost of the program. One firm suggested a price tag of \$89 million; the other projection was \$320 million. This disparate range illustrates the flaw in GASB 45's measurement of the cost of the benefits. It's true. GASB doesn't specifically say these amounts must be paid immediately. Instead, they require calculation and reporting of an "Annual Required Contribution."

Travis County would be required to front an annual required contribution of \$46 million. To obtain those extra millions, property taxes would have to increase 16 percent, the proceeds of which would be devoted exclusively to the GASB contribution. If that price went unpaid, it would compound, eventually showing these fictional liabilities as exceeding assets. The county would be insolvent on paper

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