



Governmental Accounting Standards Board (GASB) 45 and Implementation Approach

City of Dallas

May 8, 2006

Purpose of Presentation

- Summary of Governmental Accounting Standards Board (GASB) 45
- Approach for the City of Dallas
- Process to analyze Plan Costs Under GASB 45
 - First effective for fiscal year 10/1/07 – 9/30/08

A Brief Summary of GASB Statement No. 45

- Covers certain post-retirement benefits programs (e.g., retiree medical and life benefits), also called “Other Post Employment Benefits” or “OPEBs”
- Requires the use of accrual accounting for expenses and liabilities in financial statements rather than current practice of “pay as you go” expensing or cash basis accounting
- May have significant impact on the City’s financial statements
- City will need actuarial and accounting analyses to evaluate impact of GASB 45
- Initial actuarial liability for past services will be amortized and expensed over a period of years to be determined by the City, up to 30 years
- Effective for the City’s fiscal year beginning October 1, 2007

Current Practice

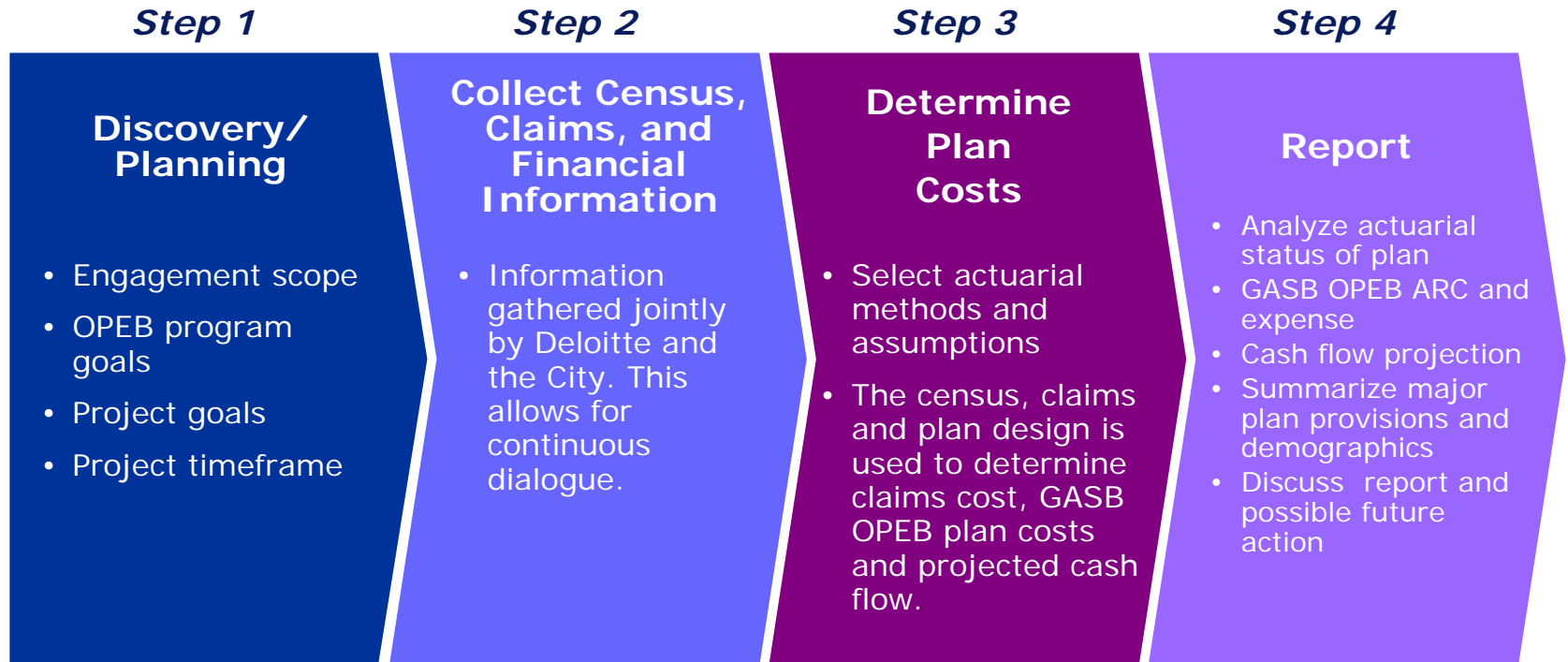
- Very few governmental OPEB plans have ever had an actuarial valuation because it has never been required
- Most OPEB plans (like the City of Dallas) are financed on a *pay-as-you-go basis (cash basis)* and only record (recognize) a portion of the total liability
- This means financial reporting practices generally focus on reporting outflows of current financial resources (cash basis)
- Therefore, current financial reporting generally fails to:
 - Recognize the cost of retirement benefits in periods when services are received
 - Provide information about the current value of future promised benefits and associated liabilities
 - Provide information useful in assessing potential demands on future cash flows

Approach for the City of Dallas

- Hired Deloitte Consulting to guide us through the GASB 45 implementation
 - Perform an actuarial study of OPEB plan costs (“baseline valuation”) required under GASB 45
 - Analyze whether to fund the OPEB obligation or not . This decision could affect the discount rate assumption which directly impacts the amount of expense recorded or recognized.
 - Evaluation of impact on City’s financial statements
- Assuming no significant health plan or participant demographic changes occur in the interim, this study or valuation can be used for expense and liability calculation for year beginning October 1, 2007

Approach for the City of Dallas

Analyze Plan Costs



Status: Steps 1 and 2 complete, Step 3 in initial stages

Changes to City's Financial Statements Beginning 10/1/07

- Accrual accounting of OPEB costs recognized over the working lifetime of active employees
- Annual Required Contribution ("ARC") OPEB Expense (similar to GASB 27 for Pensions)
 - Normal current year costs
 - Amortization of the unfunded OPEB liability
 - Interest cost of prior years Net OPEB Obligation
- The cumulative difference between amounts expensed and "contributions" to the plan will create a liability* on the City's balance sheet called the Net OPEB Obligation
- *Prospective* implementation: the initial Net OPEB Obligation for past service liability on balance sheet at 10/1/07 will be set equal to \$0, regardless of funded status of plan
- Additional footnote disclosure and supplementary information is required (similar to GASB 27) beginning 9/30/08

* Or asset if cumulative contributions exceed expense

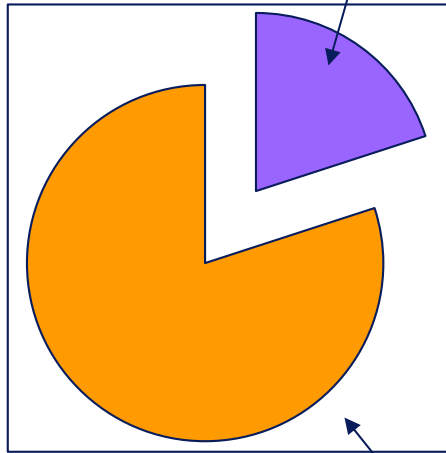
Current Reporting Practice versus GASB 45 Requirement

(for illustration only)

Current Employee

Future Payments for
Current Year Service (C)

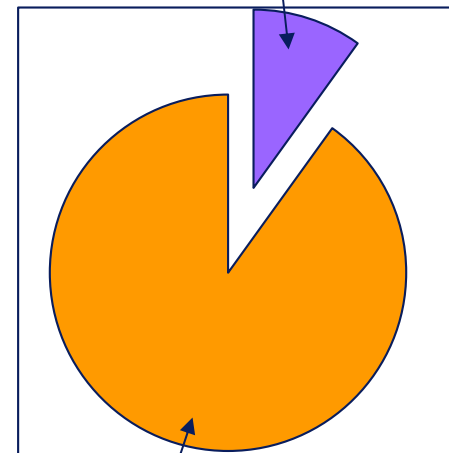
(Normal Cost)



Future Payments for
Prior Service (D)

Retiree

Current Year Benefit (A)



Future Year Benefits (B)

- Prior to GASB 45, (A) was the only cost recognized annually
- GASB 45 requires recognition of (c) plus amortization of (B) and (D)

Future Related City Decisions

- Period to amortize initial unfunded actuarial accrued liability
- Pre-funding vs. not pre-funding
 - Impact on financial statements
 - Impact on current budgets
 - Potential impact on debt ratings
 - Potential impact on tax rates

Summary

- Key points

- GASB 45 is effective for fiscal year beginning 10/1/07
- Accrual accounting of costs vs. current “pay-as-you-go” basis
 - ARC, OPEB Expense and Net OPEB Obligation
- Increased financial statement expense (and likely liability on balance sheet)
- Actuarial valuation currently being performed to determine OPEB costs
- Whether to fund plan is significant decision for City to make

- Key project deliverables

- Calculation of projected ARC and OPEB Liability for year ending 9/30/08
- Cash flow projections of OPEB plan
- Report summarizing findings and basis for actuarial valuation

Questions