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# Smith: Texas needs fiscal integrity

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The Legislature may soon vote on two bills (Senate Bill 1102 and House Bill 2365) that will give the state and local governments throughout Texas the ability to avoid recognizing the extensive public employee healthcare retirement benefits that they promised their workers upon employment. This legislative initiative will lead to serious adverse consequences for taxpayers, could possibly devastate the lives of many retired public employees and jeopardize our state's bond rating.

Why is this happening? A ruling called GASB 45. The Government Accounting Standard Board requires public employers to report the costs of their retiree healthcare plans as a future liability. Before the rule was adopted, public employers were allowed to account for these non-pension financial promises on an annual "pay-as-you go" basis.



The House and Senate bills would allow Texas to ignore the accounting rule because the state and many municipalities have drastically underfunded or not funded their employees' retirement health care benefit obligations and don't want to have to account for these accrued promises on their financial statements. Accounting for those benefits would amount to recognizing them what they are: hard promises, not perks that may be easily dismissed.

Supporters of the bill are concerned that recognizing these obligations would force major and unwanted budgetary adjustments by the state. The Texas Legislative Budget Board has estimated that state obligations will total at least \$50 billion over the next decade. Several cities and other local government employers are looking at accrued and unfunded retiree healthcare obligations totaling hundreds of millions, if not billions of dollars. Under the rule, many of these employers would report accrued obligations 20 to 30 times higher than current annual expense levels. If means of controlling these obligations are not developed, they could become growing black holes on many Texas municipal balance sheets.

In response to the ruling, Texas lawmakers have drafted house and senate versions of bills to declear the accounting rule because, in the view of Comptroller Susan Combs, the state "does not have a defined benefit health plan that requires Texas to fund benefits that have been promised." In her view, the state "can have no long-term liability . . . and reporting any such liability is inaccurate." In other words, the state's promise to its retirees is an

empty one or, at best, it should be regarded as a "short-term employment perk."

On the other hand, refusing to abide by the recognized national standards for accounting and choosing not to create a plan for going forward will likely threaten the credit rating of the state and several municipalities throughout Texas. Standard and

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Poor's has said it will pay close attention to these unfunded liabilities "their expected magnitude and to employers' strategies for managing them."

Recognition and compliance with the accounting board's statement is a serious issue, not just because municipal financial statements, bond ratings and general fiscal integrity deserve our considered attention, but because of the considerable impact on public employees' financial security and our ability to continue to attract and retain qualified, well-trained teachers, firefighters, law enforcement officers and other public servants.

Texas should stop playing accounting games and get on with establishing a plan to best fund the obligations it has incurred. Passage of legislation allowing public entities to decide what accounting measures they prefer promotes confusion and could bring further public fund accounting anarchy by setting a precedent for overruling other "generally accepted accounting principles" that don't suit the political objectives of our lawmakers.

Recognition of GASB 45 will lead to greater public transparency and disclosure, which might prompt a vigorous discussion about how to control the costs of these important promises and lead to developing public employee health care benefit programs that are fair to all stakeholders: employers, employees and taxpayers alike.

Taxpayers should demand that the proposed legislation to ignore the rule be withdrawn and ask their representatives to protect our public employees' right to the benefits promised them upon employment and preserve Texas' reputation for sound fiscal integrity.

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