Timing is Everything –At least that's true for GASB 75 if a city doesn't want to delay its CAFR

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At this point, most readers are familiar with Governmental Accounting Standards Board Statement No. 45 (GASB 45), which required an actuarial valuation at least once every two or three years (depending on size) of any post-employment benefits they provide to retirees.

The valuation was required even if the city did not provide an explicit subsidy for retiree health insurance, pursuant to the argument that the city's group health insurance cost is "inflated" (or may become "inflated" in the future) because retirees are covered under the same group health insurance program as active employees.

In Florida, because state law requires cities to offer retiring employees the opportunity to continue their coverage under the same group health insurance program as active employees, virtually all Florida cities have been required to conduct a periodic actuarial valuation of their post-employment benefits under GASB 45, to determine the amount of any implied or implicit subsidy for the coverage provided to retirees.

Another way of describing the valuation requirement is that retirees who remain covered by the city's health insurance program are getting a deal, because the cost of their coverage is effectively subsidized by the city and/or active employees.

Now, effective for fiscal years beginning after June 15, 2017, the Governmental Accounting Standards Board has replaced GASB 45 with Statement No. 75 (GASB 75), which will require an annual actuarial valuation for most cities, with voluminous disclosures analogous to those under GASB Statement No. 68 (GASB 68).

Although GASB 75 does provide some degree of flexibility with respect to the timing of the actuarial valuation and preparation of the associated cost and disclosures, as a practical matter, cities must be careful to obtain their GASB 75 cost and disclosures in a way that will not cause a delay in the preparation of their Comprehensive Annual Financial Reports (CAFRs).

To understand the timing requirements set forth in GASB 75, it is necessary to understand three distinct dates: the valuation date; the measurement date; and the reporting date. The valuation date may be up to 2 1/2 years prior to the reporting date. The measurement date may be up to one year prior to the reporting date (OK, one year plus one day, but that's a technical point). And the reporting date is the last day of the city's fiscal year.

As an example, with respect to a city's September 30, 2018, financial statement, we have a September 30, 2018, reporting date; we could have a measurement date that falls within the period September 30, 2017, through September 30, 2018; and we could have a valuation date that falls within the period April 1, 2016, through September 30, 2018.

Another important concept is the GASB 75 discount rate. Just as with GASB 68, GASB 75 requires the actuary to use a discount rate that represents the expected long-term rate of return on trust assets, *but* *only to the extent that the other post-employment benefits (OPEBs) are provided through a trust fund.* For the vast majority of Florida cities, OPEBs are not provided through a trust fund. For these cities, GASB 75 requires the actuary to use a discount rate that reflects the average return on 20-year municipal bonds *as of the measurement date.*

Because each reporting date must use a unique measurement date (i.e. a city cannot use a single measurement date to provide disclosures as of two different reporting dates), it is this last point that creates timing problems under GASB 75, and that also results in the necessity of performing an annual actuarial valuation for OPEBs that are not provided through a trust fund.

Since the average return on 20-year municipal bonds cannot be determined until sometime after the measurement date, it will be impractical for most cities to use a measurement date that coincides with the city's reporting date because, in that case, the city will not be able to obtain the required GASB 75 cost and disclosures until several months after the close of the fiscal year, thereby creating the potential for an unacceptable delay in the CAFR.

There is a solution to this timing problem, however, as long as the city is willing to obtain an annual GASB 75 valuation and uses a measurement date that is one year prior to the end of the city's fiscal year.

The Florida League of Cities recommends that all cities that offer OPEBs that are not provided under a trust fund follow the following schedule to avoid delays in issuing the CAFR:

Use a valuation date that is as of the beginning of the prior fiscal year (i.e. use an October 1, 2016, valuation date for the city's September 30, 2018, financial statement).

Use a measurement date that is as of the close of the prior fiscal year (i.e. use a September 30, 2017, measurement date for the city's September 30, 2018, financial statement).

Under the recommended schedule, the city should be guaranteed to have its GASB 75 costs and disclosures on hand several months prior to the close of each fiscal year, giving the city's auditors ample time to review the GASB 75 numbers before CAFR is prepared – hopefully, eliminating sleepless nights for those responsible for ensuring that the CAFR is issued on time.

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