

To the Mayor and Members of the City Council**December 15, 2015****Page 1 of 3****SUBJECT: THE IMPACT TO THE CITY OF IMPLEMENTING GASB STATEMENT NO. 68, ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS****Background:**

On June 25, 2012, the Government Accounting Standards Board ("GASB") approved GASB Statements 67 and 68, effectively replacing GASB Statements 25 and 27, respectively. These new standards were designed to improve financial reporting and provide transparency into the accounting of state and local government defined benefit pension plans. These new GASB statements bring governmental accounting and reporting standards closer to those found in the private sector.

The City implemented GASB Statement No. 67 in Fiscal Year 2014. GASB Statement No. 68 ("GASB 68") is effective for fiscal years starting after June 15, 2014. Thus, the City is required to implement the requirements of this statement in Fiscal Year 2015. GASB Statement No. 71, a statement clarifying the requirements of GASB 68, is required to be implemented simultaneously with the provisions of GASB 68.

In prior years, information on the pension liabilities was disclosed in the notes to the financial statements as well as within the required supplementary information (RSI) section of the Comprehensive Annual Financial Report (CAFR). With the implementation of GASB 68, the total net pension liability will be reported on the face of the Statement of Net Position (entity-wide balance sheet), effectively reducing our overall net position. As required before GASB 68, governments will continue to report pension obligations within the notes to the financial statements and the required supplementary information. It is important to highlight that GASB 68 does not create a new liability; rather, it affects how this liability is calculated, reported, and presented in the audited financial statements.

Additional highlights of key changes required as a part of GASB 68 include:

- Separating accounting for pension liabilities from the funding these liabilities
- Adding net pension liability ("NPL") and deferred outflows/inflows of resources to the statement of net position. Deferred outflows/inflows are defined as the consumption or acquisition of net assets that is applicable to a future reporting period
- Eliminating the annual required contribution ("ARC") concept for recognizing pension expense; however pension expenditures will still be used as the outflows measurement for governmental funds
- Significant increase in note disclosures and information reported in the RSI section of the CAFR.

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Preliminary Calculation of the Fund’s Net Pension Liability for FY2015:

During the City’s review of the requirements under this new GASB structure, the City requested that Segal Consulting provide a preliminary NPL. In May of 2015, Segal provided the City with the following estimate:

Total Pension Liability	\$	3,976,000,000
Market Value of Assets		2,076,000,000
Net Pension Liability (NPL)	\$	<u>1,900,000,000</u>

Impact on the Financial Statements:

Changes resulting from GASB 68 requirements apply only to the financial statements presented on an accrual basis of accounting. Specifically, these statements include the: government-wide financial statements, enterprise funds (Water and Sewer, Stormwater Utility, Municipal Airports, Municipal Parking, and Solid Waste Funds), and the Pension Fund (which is not included in the government-wide financial statements). GASB 68 does not apply to governmental funds. These funds will continue to report pension expenditures based on contributions made during the year.

Implementation of the new pension standards is a change in accounting principle and will require the recognition of a one-time prior period adjustment to restate the beginning net position.

Impact on External Audit:

The City’s external auditors (Deloitte & Touche) have stated that the implementation of the new pension standards will have a significant impact on the financial statements, and as such, GASB 68 will be an area of focus for the Fiscal Year 2015 Audit.

Significant audit focus includes:

1. Completeness of the entries to record the adjustment to beginning net position, net pension liability and deferred inflows/outflows.
2. Completeness and accuracy of footnote disclosures.

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The credit rating agencies have prepared various commentaries on the implementation of GASB 68 with consensus that implementation will have a minimal impact on municipal bond ratings given that the rating agencies' current credit analysis methodologies already account for pension obligations and liabilities. Specifically, the headline to Moody's special comment on this subject dated June 30, 2014 reads "*Moody's US Public Pension Analysis Largely Unchanged By New GASB 67/68 Standards*".

Similarly, on September 2, 2015, Standard & Poor's wrote "*our method of analysis of local government public pension plans is fundamentally unchanged and focuses on a local government's near- to medium-term budgetary stress caused by payments of pension of contributions, the likelihood of growth in these costs if liabilities are not adequately addressed, and management's actions related to those costs*" in their response to the implementation of the GASB changes.

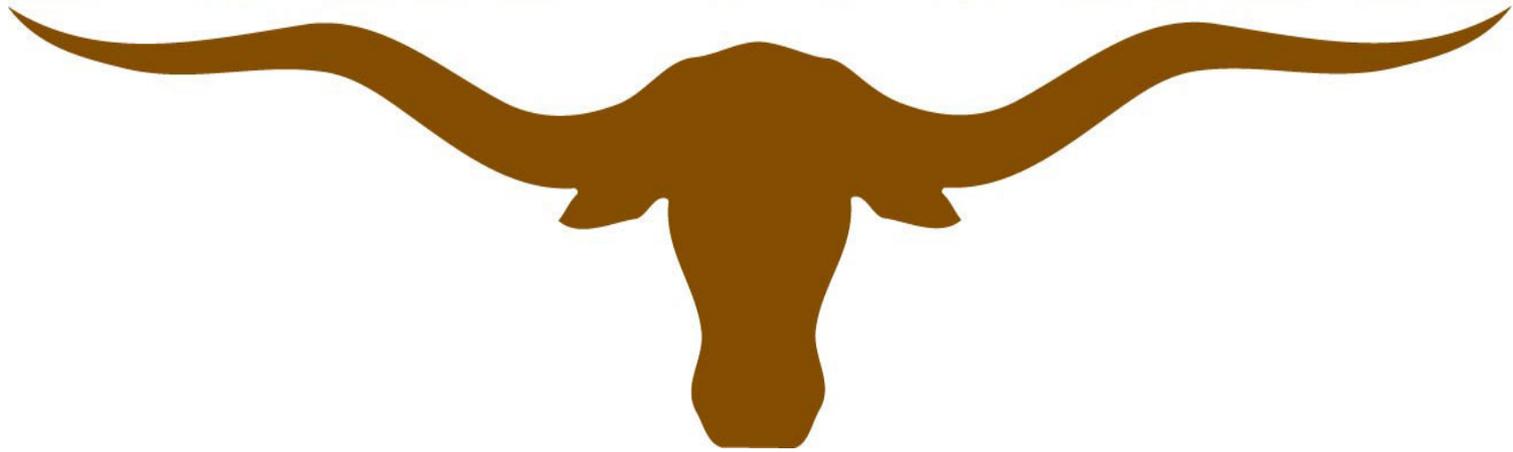
Fitch stated in a special comment dated February 13, 2015 that "*Fitch does not expect the transition to new pension accounting to be a significant rating driver.*"

While no direct rating impact is anticipated, there will be potential impacts on financial ratios and other measures; however, the Department of Finance does not anticipate that these measures will negatively affect the reception of the City's credit in the capital markets.

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517.

David Cooke
City Manager

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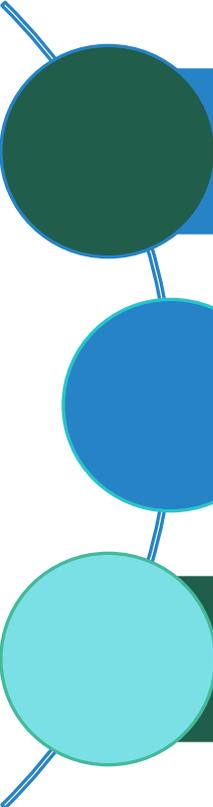


FINANCIAL STATEMENTS AFTER THE NEW PENSION STANDARDS

AARON BOVOS – CHIEF FINANCIAL OFFICER

December, 2015

Agenda



Government Wide Statement of Net Position

Enterprise Funds Statement of Net Position

Financial Statement Implications

CITY OF FORT WORTH, TEXAS
STATEMENT OF NET POSITIONS
SEPTEMBER 30, 2014
(in 000's)

	Before GASB 68	After GASB 68
Assets		
Cash, Cash Equivalents, & Investments	\$ 835,776	\$ 835,776
Receivables, Restricted Assets & Others	712,651	712,651
Capital Assets	4,556,154	4,556,154
Total Assets	6,104,581	6,104,581
Liabilities		
Accrued liabilities	257,496	257,496
Long-Term Liabilities:	2,650,019	2,650,019
Net Pension Liabilities	67,060	1,900,000*
Total Liabilities	2,974,575	4,807,515
Net Position		
Net Investment in Capital Assets	2,957,286	2,957,286
Restricted	96,900	96,900
Unrestricted	75,820	(1,757,120)
Total Net Position	\$ 3,130,006	\$ 1,297,066

* Estimated Net Pension Liabilities 09/30/2014 (measurement date).

CITY OF FORT WORTH, TEXAS
STATEMENT OF NET POSITIONS (AFTER GASB 68)
SEPTEMBER 30, 2014
(IN 000s)

	Water & Sewer	Stormwater	Airports	Parking	Solid Waste
Assets					
Cash	\$ 351,337	\$ 89,715	\$ 125,615	\$ 4,402	\$ 37,864
Receivables	64,421	3,675	12,070	165	16,605
Capital Assets	2,382,996	128,776	179,633	51,185	17,070
Total Assets	2,798,754	222,166	317,318	55,752	71,539
Liabilities					
Accrued Liabilities	113,288	9,397	79,989	2,355	12,706
L-T Liabilities	828,174	138,202	1,496	45,226	13,403
Net Pension Liabilities	201,568	24,439	5,524	2,249	17,735
Total Liabilities	1,143,030	172,038	87,009	49,830	43,844
Net Position					
Net Invest CA	1,620,087	46,175	177,770	5,751	12,285
Restricted	58,496	1,053	13	342	415
Unrestricted	(22,859)	2,900	52,526	(171)	14,995
Total Net Position	\$ 1,655,724	\$ 50,128	\$ 230,309	\$ 5,922	\$ 27,695
FY2014 Net Position	\$ 1,850,206	\$ 73,739	\$ 235,642	\$ 8,093	\$ 44,848

Implications on Financial Statements



- The implementation of GASB 68 requires a one-time period adjustment to restate the beginning net position. The external auditors will closely review the restatement and increased note disclosures.
- Rating agencies have stated that GASB 68 will have a limited impact on ratings.
- In June of 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Postemployment benefits other Than Pensions*.
 - The new standards parallel the pension standards (GASB Statement No. 67, *Financial Reporting for Pension Plans* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*).

Discussion/Questions
