

***Chairman Farrell and other members of the Committee on Ways and Means:***

I am Robert Lowry, Deputy Director of the New York State Council of School Superintendents.

Thank you for convening this hearing and taking this step toward helping school districts comply with "GASB 45", the Governmental Accounting Standards Board's statement regarding post employment benefits other than pensions.

I will share our sense of where schools stand in implementing the statement's requirements and then offer some recommendations on what the state could do to help school districts move forward.

I want to begin by acknowledging that GASB's requirement for public employers to calculate and disclose their liabilities for retiree benefits is appropriate. As one school official observed to us, "The taxpayers are on the hook for this liability."

Employers are not required to fund their liability, but not doing so merely postpones an inevitable reckoning. Also, the longer an employer postpones action, the greater the gap that will emerge between its actual payments and its required contributions. Eventually, those gaps will harm credit ratings. They may also stir doubts about fiscal soundness and lead voters to reject school budgets.

Fewer than 10 percent of the state's roughly 700 school districts will be required to comply with the statement in the 2007-08 school fiscal year, the first year of implementation. The vast majority of districts have annual revenues between \$10 million and \$100 million and so will be expected to comply beginning in 2008-09.

Our informal survey indicates that most school districts are in the initial stages of satisfying GASB 45. Few have completed the actuarial valuation required to determine their total liability and annual required contributions. Accordingly, we cannot forecast the total impact of the statement's requirements.

Many districts have either contracted, bid or otherwise gained a sense of the cost of obtaining the actuarial valuation. For upstate districts, the typical cost seems to be between \$10,000 and \$20,000. Some downstate districts project much higher charges.

Some districts have lowered their cost by working through their BOCES – Board of Cooperative Educational Services – to form regional consortia to contract for the actuarial valuation.

Also, several districts are moving ahead of the GASB timeline because they foresee a shortage of professionals available to conduct the valuations next year, when 500 or so districts will be expected to comply, plus other employers. They sense that waiting until next year would drive up their costs.

There is one last point to bear in mind about these valuation exercises: they are not a one-time cost. School districts and other public employers will be required to repeat it on a regular basis depending on the numbers of employees and retirees covered by their plans. So the cost and any professional shortages will be recurring concerns.

Again, we do not have an estimate of the total cost of actually funding the liabilities but there is no question that it will be huge. For example, one upstate small city district estimates that its liability will be approximately three times its total annual revenues. Several districts have reported that their annual required contributions will be on par with their typical increases in state aid.

We commend Assemblyman Sweeney for proposing legislation to permit school districts to establish reserve funds to pay for these future obligations. We applaud the Assembly for passing that proposal and urge you to do so again this year. There is more that you could do to help school districts and other public employers, however.

Irrevocable trusts whose resources could not be used for any other purpose but to pay these benefits would be an even stronger option for school districts. They would be viewed more favorably by credit rating agencies, enabling districts to lower taxpayer costs for future borrowing.

At present, however, school districts do not have clear legal authority to establish trust funds for these purposes.

We recommend that employers be given the option to establish their own trusts, or to join a statewide trust. School districts and other participating employers would then maintain individual accounts within the statewide trust. With the greater expertise of state managers, a statewide trust fund be authorized to employ a broader mix of investments, enabling it to achieve greater investment earnings and thus reduce the sums to be raised directly from taxpayers.

Of course there is one other way that state government could help schools and other public employers cope with GASB's requirements: enact a plan to make quality health care more affordable, for both the taxpayers and the employees who pay insurance premiums.

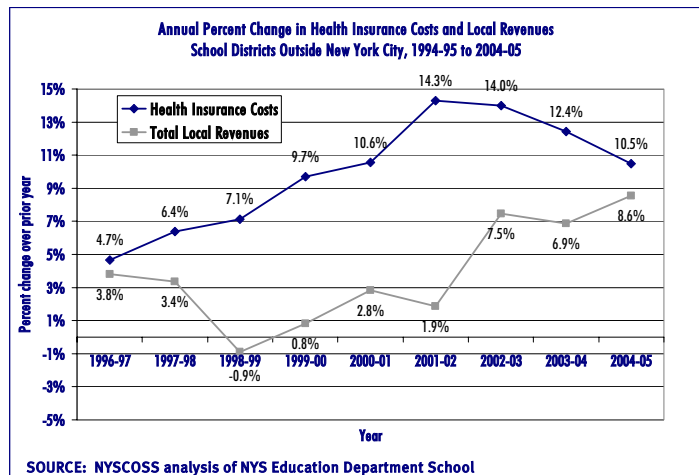
GASB 45 raises not only arcane accounting questions. It compounds more widely felt worries over the spiraling cost of health insurance.

Throughout this decade, schools have struggled to meet the same expenses as every other enterprise in America: pensions, energy and health insurance.

Now, pension costs are en route to stabilizing, barring a stock market crash or major benefit enhancement. Energy costs will continue to surge and moderate in response to global developments, at least until this nation cures its addiction to fossil fuels. But there appears no end in sight to the recent trajectory of double digit increases in health insurance costs. In October, for example, the Budget Division forecast that the state's cost for employee health insurance will rise by 21 percent over the next two years.

Inevitably, school district leaders are forced to make hard choices. They can attempt to negotiate reductions in benefits or increases in employee payments. Or they can seek to absorb the costs by cutting into other spending, including instruction, or by shifting more costs on to local taxpayers. Or they can pursue some combination of all three strategies.

An informal survey we did one year ago indicated that more than 60 percent of districts had taken some steps to reduce their health insurance costs. Still, for school districts outside of New York City, increases in health insurance costs absorbed more than one-third of the total increase in local school taxes over the first five years of this decade.



School superintendents bear a responsibility to balance what children need with what taxpayers can afford. You share that responsibility as state policymakers. We need to hire and keep the very best teachers and leaders for our schools – nothing is more important to achieving more success for more children. But we must also sustain voter support for our enterprise, or face the prospect of destructive cutbacks in funding that are dictated when school budgets fail.

GASB 45 will complicate those challenges. When a similar rule was applied to the private sector, the number of employers providing health insurance for retirees dropped sharply. The Kaiser Family Foundation reported that 38 percent of large employers offered such benefits last year, down from 66 percent in 1988. The *New York Times* found that, among all companies, only one in 20 now offers health insurance in retirement ["The Next Retirement Time Bomb", December 11, 2005].

Let me be clear: private sector practices do not constitute an example that public employers are obliged automatically to follow. The goal of public policy should be to assure health insurance for everyone. But without your action, GASB 45 is apt to accelerate movement away from that goal. Several school officials advised us that they see curtailing retiree health benefits as the only way their school systems can eventually satisfy GASB's requirements.

As an organization, we have not yet formulated recommendations to make health insurance more affordable. But we believe it is the most important step that you can

take, not just to address GASB 45, but to help schools cope with what is now the one expense category driving the biggest share of spending increases in many districts.

In this sense GASB 45 is not just a challenge, but an opportunity. We hope you will seize it. We pledge to work with you to construct reforms that meet our shared duty to advance the interests of both the schoolchildren and the taxpayers whom we all serve.