

TALKING POINTS

Comptroller's Audit: Employee Benefits Accrued Liability Reserve Funds

Background

- A New York State comptroller audit of school districts found that districts have set aside more funds than necessary in employee benefit accrued liability reserve (EBALR) accounts. Districts must use EBALR money to pay out accrued leave time (e.g., unused vacation, sick or other leave time) to retired employees.
- Statewide, 421 school districts have created EBALR funds. The comptroller's audit found that 251 districts have allocated far more funds (an estimated \$407 million) than they actually need to meet their liability for leave time accruals.
- The audit then focused more closely on 19 districts. It concluded that, in total, the districts reserved more than twice the sum needed to cover their reported liabilities. It does acknowledge that some districts indicated they accumulated funds in the accounts to cover non-permissible costs, such as retiree health insurance costs (as recommended by Governmental Accounting Standards Board (GASB) rule 45).
- The comptroller points out that while school districts have been putting more money than necessary into the EBALR fund, they have also been increasing local property taxes. For example, the 19 districts audited increased their EBALR fund by \$100 million at the same time that they raised property taxes by \$243 million. The comptroller concluded that the districts could have saved \$100 million in property tax increases.

Key Points

- School district officials and board members all know too well that they are facing huge future pension and health insurance costs and that responsible financial planning requires that money be set aside regularly to prepare for these expenses. The hit to future taxpayers would simply be too severe otherwise.
- The Comptroller has drawn attention to the need for school districts and local governments to set aside funds to pay for retiree health insurance benefits as called for by GASB 45. <http://www.osc.state.ny.us/press/releases/may08/050808a.htm>. He has said that, under current state law, these entities do not have a legal mechanism to set aside funds for these liabilities.
- School districts are audited annually by an independent auditor. It appears that these auditors never raised this issue as a problem. In some districts, independent auditors even encouraged districts to use EBALR to set aside money for costs other than compensated absences.
- Many districts may have been setting aside funds for future retiree health insurance benefits. The state has not provided a mechanism by which school districts can save for post-retirement benefits.
- Some districts may have relied on a guidance document from the State Education Department suggesting that these accounts *could* be used to reserve funds for costs other than compensated absences, including retiree health insurance costs. (See http://www.emsc.nysed.gov/mgtserv/accounting/reserve_funds.pdf; item 13 on p.4 says, "The purpose of this account is to reserve funds for the payment of *any* accrued employee benefit due an employee upon termination of the employee's service [emphasis added]."

- Financial rating agencies take a favorable view of districts that are saving for Other Post Employment Benefits (OPEB) such as retiree health insurance. Districts that used the EBALR for this purpose will likely see future savings to taxpayers through lower borrowing costs.
- School district leaders support Comptroller DiNapoli's effort to seek approval for legislation that will allow the creation of special reserve funds to take in money that can be legally used for future pension and health insurance costs (referred to as an "OPEB trust" in the audit). That will allow transfers to be made to these new reserve funds from the current EBALR funds that have surpluses.
- By law, school districts can only save 4 percent of their budgets for a rainy-day fund. This is inadequate, especially in light of today's fiscal crisis and the state's projected \$8 billion deficit. Local governments have no limit on their general reserves.
- State Education Department guidance, accounting firms, the state comptroller's office and private auditors had all approved of this practice and urged school districts to engage in long-range fiscal planning. The current fiscal climate clearly shows the need for school districts to minimize the fiscal impact on their taxpayers.

10/21/2008