

## Maintenance Level

# M2-AR GASB 75 Requirement Compliance

### Agency Recommendation Summary Text

The Health Care Authority (HCA) requests \$715,000 in the 2017-2019 biennium to comply with new financial statement reporting mandated by the Governmental Accounting Standards Board (GASB) Statement 75-Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). GASB Statement 75 requires the HCA to annually calculate and disseminate to all Public Employees Benefits (PEB) employer groups their OPEB liability.

### Fiscal Summary

Operating Expenditures	FY 2018	FY 2019	FY 2020	FY 2021
Fund 418-1 HCA Admin	\$364,000	\$351,000	\$351,000	\$351,000
<b>Total Cost</b>	<b>\$364,000</b>	<b>\$351,000</b>	<b>\$351,000</b>	<b>\$351,000</b>
Staffing	FY 2018	FY 2019	FY 2020	FY 2021
FTEs	0.8	0.7	0.7	0.7
Revenue	FY 2018	FY 2019	FY 2020	FY 2021
Fund 418-1 HCA Admin	\$364,000	\$351,000	\$351,000	\$351,000
<b>Total Revenue</b>	<b>\$364,000</b>	<b>\$351,000</b>	<b>\$351,000</b>	<b>\$351,000</b>
Object of Expenditure	FY 2018	FY 2019	FY 2020	FY 2021
Obj. A – Salaries	\$62,000	\$53,000	\$53,000	\$53,000
Obj. B – Benefits	\$12,000	\$10,000	\$10,000	\$10,000
Obj. C – Contracts	\$275,000	\$275,000	\$275,000	\$275,000
Obj. E – Goods & Services	\$14,000	\$12,000	\$12,000	\$12,000
Obj. G – Travel	\$1,000	\$1,000	\$1,000	\$1,000

### Package Description

The GASB is changing the financial reporting and disclosure requirements for state and local governments as it pertains to OPEB. This request will allow the HCA to calculate the necessary OPEB liability for each PEB employer group, contract for census testing, and have the results audited by an outside vendor. The HCA will lead the implementation and coordinate with the Office of Financial Management (OFM) and the State Auditor's office (SAO) to meet the reporting and disclosure requirements of Statement 75. The HCA will develop and maintain a

website that will provide employer groups their share of the net OPEB liability for their respective financial statements.

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## Decision Package Justification and Impacts

### Performance Measure Detail:

#### Activity Inventory

H004 HCA Public Employees Benefits

### What specific performance outcomes does the agency expect?

The HCA will actuarially calculate the OPEB liability for all employer groups in the PEB program. Those individual liabilities will be made publically available on an HCA-maintained website and updated as required. The HCA will work with the OFM to prepare OPEB reporting and footnotes for the state Comprehensive Annual Financial Report (CAFR).

### What alternatives were explored by the agency and why was this option chosen?

The HCA was chosen to implement GASB 75 instead of the OFM because OPEB data resides within the HCA. This request assumes a single outside vendor will provide both the census testing and audit functions. These functions were split between the SAO and an independent accounting firm when the Department of Retirement Systems (DRS) implemented Statement 68. After discussions with the DRS, the HCA believes significant cost savings will be achieved by procuring both these activities from a single outside vendor.

### What are the consequences of not funding this request?

Without the requested funding, this request increases the likelihood that the State of Washington's CAFR and the financial statements of local governments participating in PEB will be out of compliance with Governmental Accounting Standards. When the state and local governments are audited they could receive a qualified opinion from the auditor because the financial statements are not properly reporting and disclosing their OPEB liability. This may lead to a downgrade of the state's bond rating and thus increase borrowing costs.

### How has or can the agency address the issue or need in its current appropriation level?

If approved, this request would transfer funds from the Public Employees' and Retirees Insurance Account (Fund 721) to Fund 418. Fund 721 has multiple revenue sources but the primary source of revenue is the state funding rate. The funding that is requested in this proposal is small enough where it does not increase the current funding rate by itself (it would result in a funding rate increase that is less than one dollar per month).

### **Provide references to any supporting literature or materials:**

Statement No. 75 of the Governmental Accounting Standards Board. Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

[http://www.gasb.org/jsp/GASB/Document\\_C/GASBDocumentPage?cid=1176166144750&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176166144750&acceptedDisclaimer=true)

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### **Base Budget**

#### **If the proposal is an expansion or alteration of a current program or service, provide information on the resources now devoted to the program or service.**

The current OPEB reporting and disclosure requirements under GASB Statement 45 are minimal. The HCA requires only a few hours a year in conjunction with OFM to update footnote 12 in the state CAFR. Statement 75 is a significant expansion of time and cost to meet the new reporting requirements. Additional appropriation is now needed for Fund 418 to pay for website development and maintenance, increased staff costs, and contracting for vendor services. The HCA expects material costs of 0.81 FTE and \$364,000 to begin in fiscal year 2018. For fiscal year 2019 and ongoing, the HCA estimates costs to be 0.7 FTE and \$351,000. Please see the corresponding documentation from the HCA staff model.

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### **Expenditure, FTE and Revenue Assumptions, Calculations and Details:**

This funding request takes into consideration costs incurred by the DRS to implement GASB Statement 68. Statement 68 has similar reporting requirements but applies to reporting for pensions. The HCA anticipates significant implementation costs to begin in fiscal year 2018.

**Fiscal Year 2018:** Fiscal year 2018 is the first year and when costs are expected to be the highest. Computer programming and web development will take approximately 230 hours. This requires 0.09 FTE for an Information Technology Specialist (ITS) 6 and 0.04 FTE for an ITS 5. Additional finance staffing costs are needed to perform the new financial reporting, respond to questions from employer groups, lead presentations and discussion with internal and external stakeholders, plan, test, and maintain the data within the HCA, send out employer contribution confirmations, prepare the annual participating employer financial information (PEFI), prepare the footnote disclosures for the CAFR, and prepare allocations for the participating school districts. These duties will require 0.5 FTE of a Washington Management System (WMS) 2 fiscal analyst and 0.11 FTE of a WMS 3 fiscal supervisor. Every year publications, mailings, emails, web postings, and other notifications will be sent out to the employer groups participating in PEB Program. This will require 0.07 FTE from a Communications Consultant 3. An external vendor will be selected to perform necessary census testing and audit functions. Based upon DRS pension liability reporting the past two years under GASB Statement 68, the HCA anticipates this vendor contract to be approximately \$275,000 per year. Total FTE, staff and support cost, and independent contractor cost for fiscal year 2018 are 0.81 FTE and \$364,000.

**Fiscal Year 2019:** Staffing requirements will decrease slightly in fiscal year 2019. In fiscal year 2019 web development creation will not be necessary so the 0.09 FTE for the ITS 6 is removed. Additionally, the ITS 5 will be reduced from 0.04 to 0.02 in fiscal year 2019. Total FTE, staff and support cost, and independent contractor cost for fiscal year 2019 are 0.7 FTE and \$351,000.

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## Impacts to Communities and Other Agencies

### Fully describe and quantify expected impacts on state residents and specific populations served.

The funding requested in this proposal will allow the HCA to calculate and disclose the OPEB liability for state and local financial reporting. This new reporting requirement is mandated by the GASB. The HCA will calculate the liability for approximately 1,500 state agencies and local governments that participate in the PEB Program. The amounts will be disclosed on a HCA website available and made available to the public. There is no direct financial impact to other agencies or local governments because this is for financial reporting purposes only. There may be an indirect financial impact to state agencies if this cost increases the state funding rate. The state funding rate is the amount paid by state agencies for each active employee.

### What are other important connections or impacts related to this proposal?

#### Does this request have:

Regional/county impacts?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Other local government impacts?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Tribal government impacts?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Other state agency impacts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

#### Does this request:

Have any connection to Puget Sound recovery?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Respond to specific task force, report, mandate or executive order?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Contain a compensation change?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Require a change to a collective bargaining agreement?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Create facility/workplace needs or impacts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Contain capital budget impacts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Require changes to existing statutes, rules or contracts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Have any relationship to or result from litigation?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

### If "Yes" to any of the above, please provide a detailed discussion of connections/impacts.

The GASB issued Statement 75 in June of 2015. Statement 75 changes the way Washington State and local governments report OPEB in their financial statements. Implementation of this statement is required by all state and local governments for fiscal years beginning after June 15, 2017. The HCA will calculate the OPEB liability for each state agency and all employer groups participating in the PEB program. The HCA was designated the lead

state agency by OFM to implement this statement. The HCA will work closely with the SAO and OFM to implement Statement 75.

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## Information Technology (IT)

**Does this request include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?**

No



Yes

Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)

# 2017-2019 Biennium Information Technology Addendum

## Part 1: Itemized IT Costs

Please itemize any IT-related costs, including hardware, software, services (including cloud-based services), contracts (including professional services, quality assurance, and independent verification and validation), or IT staff. Be as specific as you can (See chapter 12.1 of the operating budget instructions for guidance on what counts as “IT-related costs”).

Information Technology Items in this DP <i>(insert rows as required)</i>	FY 2018	FY 2019	FY 2020	FY 2021
ITS6 staff time	\$10,700	\$0	\$0	\$0
ITS5 staff time	\$4,300	\$2,200	\$2,200	\$2,200
<b>Total Cost</b>	<b>\$15,000</b>	<b>\$2,200</b>	<b>\$2,200</b>	<b>\$2,200</b>

## Part 2: Identifying IT Projects

If the investment proposed in the decision package is the development or acquisition of an IT project/system, or is an enhancement to or modification of an existing IT project/system, it will also be reviewed and ranked by the OCIO as required by RCW 43.88.092. The answers to the three questions below will help OFM and the OCIO determine whether this decision package is, or enhances/modifies, an IT project:

Does this decision package fund the development or acquisition of a new or enhanced software or hardware system or service?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Does this decision package fund the acquisition or enhancements of any agency data centers? (See OCIO Policy 184 for definition.)	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Does this decision package fund the continuation of a project that is, or will be, under OCIO oversight? (See OCIO Policy 121.)	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

If “Yes” to any of these questions, complete a concept review with the OCIO before submitting this budget request. Refer to chapter 12.2 of the operating budget instructions for more information.