Oregon

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January 30, 2015

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section

SUBJECT: Adoption of GAAP Cost Allocation Rule:
OAR 459-007-0009, *Allocating Costs of Compliance with Generally Accepted Accounting Principles*

OVERVIEW

- Action: Adopt modifications to the GAAP Cost Allocation rule.
- Reason: Remove rule language that could be inconsistent with House Bill 4155 (2014) regarding recovery of administrative expenses.
- Policy Issues: No policy issues were identified.

BACKGROUND

OAR 459-007-0009 was adopted by the PERS Board on July 25, 2014, as authorized by House Bill 4155 (2014) (now codified at ORS 238.610). The rule establishes procedures for recovering the additional actuarial and auditing costs associated with providing employers information necessary to comply with the new GASB 68 requirements.

The last sentence of OAR 459-007-0009(2) needs to be clarified. As previously adopted, the permanent rule states: "In any year in which earnings on those accounts are not sufficient to recover those costs, employer contribution accounts will be reduced by the amount of those costs." Although ORS 238.610(1)(a) allows for administrative expenses to be deducted from employer accounts, (1)(b) specifically says that administrative costs may be recovered "only from interest earned on employer contributions...." The statute does not specifically allow employer accounts to be reduced. Rather, in practice, there are always earnings throughout the year even though there may be a net loss for a particular year. These GASB 68 costs will be deducted from these employer earnings prior to netting all earnings and losses for the calendar year.

The modifications were adopted as a temporary rule by the Board at the November 21, 2014 meeting, because the rule needed to be in effect before the end of the calendar year for earnings crediting purposes. This item is to adopt the same modifications as a permanent rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held November 25, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended December 31, 2014 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached rule was submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rule as presented for adoption.

IMPACT

Mandatory: Yes, to comply with ORS 238.610(1)(b).

Impact: The OAR implements the requirements of HB 4155 to establish procedures for recovering administrative costs from participating public employers for providing to those employers information or services needed for GAAP reporting compliance.

Cost: There are no discrete costs attributable to the rule changes.

RULEMAKING TIMELINE

October 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2014	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 21, 2014	PERS Board notified that staff began the permanent rulemaking process. Board adopted the temporary rule.
November 25, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
December 31, 2014	Public comment period ended at 5:00 p.m.
January 30, 2015	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt modifications to the GAAP Cost Allocation rule, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Remove the rule language that conflicts with House Bill 4155 (2014) regarding recovery of administrative expenses.

If the Board does not adopt: Staff would return with rule modifications that more closely fit the Board's policy direction if the Board determines that a change is warranted.

B.4. Attachment 1 - 459-007-0009, *Allocating Costs of Compliance with Generally Accepted Accounting Principles*