GASB Pension Accounting Can Skew Debt Service Coverage
Moody's Investors Service
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Summary of Moody's report:

- "Pension expense" reporting under Governmental Accounting Standards Board (GASB) Statement 68 raises the potential for significant volatility in debt service coverage, a critical indicator of annual financial performance for government enterprises.
- Under Statement 68, reported pension expense now reflects complex accounting recognition rules, so that factors such as assumption changes and investment performance can drive significant differences between reported expense and cash outlays.
- As a result, reported pension expense can exhibit misleading volatility.
- Statement 68 is a material reporting change, but not a credit event since it does not change actual cash contributions made pursuant to actuarial or statutory requirements.
- Debt service coverage is intended to measure the magnitude by which an enterprise generates net revenues in excess of debt service in a given year.
- The reporting changes as a result of Statement 68 impact this calculation of net revenues available to pay debt service, even though these changes in pension expense are "non-cash" items.

Northfield Hospital Impact:

- As a result of the impact of Statement 68 as summarized above, Northfield Hospital is proposing to amend its Bond Indenture to exclude "non-cash" items so that the pension expense reporting impact of Statement 68 is excluded from the debt service coverage calculation.
- The debt service coverage ratio calculation will then be the same as when the Bond Indenture was originally put in place, prior to Statement 68, and will be comparable to non-Municipal hospitals which have not been impacted by this accounting change.
- The holders of the Hospital's outstanding bonds (three banks) have consented to this change.