BILL ANALYSIS

Senate Research Center
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H.B. 1232
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Intergovernmental Relations
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Engrossed

AUTHOR'S/SPONSOR'S STATEMENT OF INTENT

The Certificate of Obligation Act governs the issuance of certificates of obligation. Under this Act, issuers such as counties may not use certificate of obligation proceeds to pay "as work progresses" for work done by the issuer's employees. These employee costs must be expensed and cannot be capitalized as part of the project. However, under generally accepted accounting principals, payroll and payroll-related costs devoted directly to a project financed through certificates of obligation are costs devoted directly to water and sewer-related projects undertaken via contract, and use certificate of obligation proceeds to pay for it. As a result, the cost of work done by employees of the issuer must be expensed by the county, while work done by private contractors may be capitalized. The costs associated with county employees paid "as work progress" cannot be expensed to a certificate of obligation funded project, even though generally accepted accounting principals permit this, and even if the most cost-effective method of construction or acquiring the asset is to utilize county employees.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 271.045, Local Government Code, by adding Subsection (e) to authorize work that is directly attributable under generally accepted accounting principles to the costs of the project and that is performed by employees of the issuer to be allocated or attributed to the capital costs of the project.

SECTION 2. Amends Section 271.050(b), Local Government Code, to authorize the proceeds to be used only for the purposes for which the certificates were authorized and issued. Authorizes proceeds to be used to pay for work done by employees of the issuer that are hired for the specific purpose of performing work on the project. Authorizes proceeds to be used to pay for work done by other employees of the issuer only if the issuer incurs equivalent or greater costs to replace the normal work that would have otherwise been performed by the employees. Prohibits the proceeds from being used to reimburse the issuer for costs that are determined to be indirect costs under generally accepted accounting principles. Deletes existing text prohibiting the proceeds from being used to pay for work done by employees of the issuer and paid for as work progresses.

SECTION 3. Effective date: upon passage or September 1, 2005.