

## **BILL ANALYSIS**

C.S.H.B. 1232  
By: Castro  
County Affairs  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

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 employees’ 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 Certificates 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.

C.S.H.B. 1232 allows counties to allocate to the capitol costs of a project, work that is directly attributable under generally accepted accounting principles to the costs of the project and that is preformed by employees of the issuer of a Certificate of Obligation. C.S.H.B. 1232 also makes clear what the proceeds may be used for.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

SECTION 1. Amends Section 271.045, Local Government Code, by adding Subsection (e) which authorizes that 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 be allocated or attributed to the capital costs of the project.

SECTION 2. Amends Section 271.050(b), Local Government Code, by removing the provision that proceeds may not be used to pay for work done by employees of the issuer and paid for as work progresses. It also adds that proceeds are only authorized to be used for the purposes for which the certificates were issued. Authorizes that proceeds be issued to pay for work done by employees of the issuer that are hired for the specific purpose of performing work on the project. The proceeds may 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 work that would have otherwise been performed by the employees. Prohibits the use of the proceeds to reimburse the issuer for costs that are determined to be indirect costs under generally accepted accounting principles.

SECTION 3. Effective Date

### **EFFECTIVE DATE**

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2005.

### **COMPARISON OF ORIGINAL TO SUBSTITUTE**

C.S.H.B. 1232 79(R)

The substitute adds that work that is directly attributable under generally accepted accounting principles to the costs of the project may be allocated or attributed to the capital costs of the project. The substitute also adds language to the original that the proceeds may 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. It also includes additional language to specify that the proceeds may 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. Further, proceeds may not be used to reimburse the issuer for costs that are determined to be indirect costs. The substitute seeks to clarify that there is a direct relation between the employee's work and the cost that can be capitalized.