

## **BILL ANALYSIS**

C.S.S.B. 1575  
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Pensions & Investments  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

The ability to attract and retain competent government employees hinges on the ability of a political subdivision to provide adequate compensation, which includes post-retirement benefits such as pensions and medical benefits. In 1997, the Governmental Accounting Standards Board (GASB) began requiring governmental entities to adopt an accrual based accounting method for its pension benefits. Such an accounting method requires that costs be recognized in the year in which they are earned and a liability established for benefits that the governmental entity has already promised to pay its employees upon their retirement. This resulted in many cities having to confront a substantial difference in the estimated cost of pension benefits and the actual costs of those benefits provided to employees (the Unfunded Actuarial Accrued Liability). To help governmental entities cope with this sometimes enormous shortfall, the 78th Legislature passed S.B. 1696, which authorized political subdivisions of Texas to pay pension costs and liabilities by issuing pension obligation bonds (POBs). POBs have been used by many cities to fund their pension liabilities.

However, pensions are not the only type of post-retirement benefit provided to employees of political subdivisions. Nonpension retirement benefits include medical benefits, disability retirement, or death benefits plans. In 2007, GASB began to require governmental entities to report post-retirement benefits other than pensions under the accrual accounting method in order to provide a more complete, reliable, and useful financial reporting of the costs and financial obligations that have been incurred. A mitigation plan will be needed to assist political subdivisions account for the unfunded actuarial accrued liability, similar to the ability to issue POBs.

As proposed, C.S.S.B. 1575 authorizes a political subdivision to issue bonds, certificates, or notes to fund the unfunded liability for nonpension retirement benefits that results when the political subdivision adopts the accrual-based accounting method.

### **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 Subtitle H, Title 9, Government Code, by adding Chapter 1436, as follows:

#### **CHAPTER 1436. OBLIGATIONS OF POLITICAL SUBDIVISIONS FOR CERTAIN RETIREMENT BENEFITS**

Sec. 1436.001. DEFINITIONS. Defines "obligation" and "unfunded liability."

Sec. 1436.002. DEFINITION OF NONPENSION RETIREMENT BENEFIT. Defines "nonpension retirement benefit."

Sec. 1436.003. NONPENSION RETIREMENT BENEFIT OBLIGATIONS AUTHORIZED. (a) Authorizes a political subdivision to issue obligations to fund all or any part of an unfunded liability.

(b) Requires a political subdivision's governing body, before authorizing issuance and delivery of an obligation under this section, to enter into a written agreement with an entity that is required to contain certain information.

(c) Requires the written agreement to state the amount of the unfunded liability and the date or dates on which the fund created to receive the net proceeds of the obligations to be issued under this section will accept the net proceeds of the obligations in payment of all or a portion of the unfunded liability. These obligations may not be issued after December 31, 2011.

Sec. 1436.004. PROCEEDS OF OBLIGATIONS ISSUED. Requires the political subdivision to deposit the net proceeds of the obligations to the credit of the fund created to receive the net proceeds of the obligations.

Sec. 1436.005. PAYMENT OF OBLIGATIONS. Authorizes an obligation to be made payable by the political subdivision from certain funds.

Sec. 1436.006. OBLIGATION AS REFINANCING. Provides that an obligation issued is a complete or partial refinancing of a commitment of the political subdivision to fund its unfunded liability.

Sec. 1436.007. SALE OF OBLIGATIONS; MATURITY. Authorizes the obligations to be sold at private or public sale and requires the obligations to mature not later than the 30th anniversary of the date of issuance.

Sec. 1436.008. ADDITIONAL AUTHORITY; CREDIT AGREEMENTS. (a) Defines "credit agreement" and "obligation."

(b) Authorizes the governing body of a political subdivision that issues obligations to exercise any of the rights or powers of the governing body of an issuer under Chapter 1371 (Obligations for Certain Public Improvements) and is authorized to enter into a credit agreement under that chapter. Provides that an obligation issued under Section 1436.003 is an obligation under Chapter 1371 but is not required to be rated as required by that chapter.

Sec. 1436.009. CHAPTER CONTROLLING. Provides that this chapter prevails over any conflict between this chapter and another law respecting the issuance of obligations of a political subdivision or a municipal home-rule charter.

SECTION 2. Effective date: upon passage or September 1, 2007.

### **EFFECTIVE DATE**

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2007.

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

The substitute removes Sec. 1436.010, which would have made this act dependent on other legislation.