LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 16, 2007

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB2365** by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **As Engrossed**

No immediate significant fiscal implication to the State is anticipated.

The bill would allow the state and political subdivisions of the state to follow state statutory modified accrual standards of accounting as described in the bill, if other accounting bases conflict with state law. The state or its political subdivisions could account for other post-employment benefits on this statutory basis if generally accepted accounting principles (GAAP) require accounting on any basis other than pay-as-you-go.

The bill would have the practical impact of exempting those who choose the alternate accounting from the Governmental Accounting Standards Board (GASB) statements 43 and 45. These statements require governmental entities to account for other post-employment benefits (OPEBs), in particular retiree health benefits, in a manner similar to methods used for pension benefits.

The bill details how the state shall account for OPEBs; if they are not advance-funded then only pay-as-you-go accounting is allowed; if they are advance-funded then certain actuarial accounting amounts shall be disclosed, though these amounts are not clearly tied to the amounts required by GASB. The bill states that if the state intends OPEBs to be a benefit in future years, then it shall file a supplemental schedule presenting government-wide financial statements with some accounting for OPEBs. There is no suggested method as to how the determination of the state's intent to provide benefits would be made, or by whom.

The bill potentially prevents Texas from following GASB standards of accounting for OPEBs, though under certain conditions at least some of the GASB information may be available. Then Texas financial statements would no longer follow the official GAAP standard, which would lead to adverse opinions by outside auditors. The auditor's opinions would be dual opinions, one opinion expressing compliance with GAAP standards, and another expressing compliance with statutory standards. Differences with GAAP may be small enough to initially get a qualified opinion, though in a short time they would be material and lead to an adverse opinion.

Adverse opinions on Texas financial statements would likely cause concern among bond rating agencies. Also, bond rating agencies have said that if the GASB OPEB estimates are not provided and either funded or managed, it would be a negative rating factor. If the bond rating of Texas were lowered, there would be a significant fiscal impact on the state by increasing the costs of raising funds for construction, capital improvements, and other typical bond usages.

The bill would allow the Comptroller to establish an OPEB trust fund for state, higher education, and public education employees. This would be a revocable trust fund, with no employee or retirement system oversight, and could be dissolved at any time for any purpose, though funds transferred from another trust fund would remain in trust. Hence it would not qualify as a GASB trust fund, and it is unclear how it would be treated by the bond rating agencies.

The Teacher Retirement System reports it would save some funds in the near future if it did not have to calculate the GASB liabilities for financial reporting, though the savings would not be significant. On the other hand, calculating those liabilities could provide the state some help in planning for potential future funding of retiree health benefits. If the state advance-funded some liabilities, then any discrepancy between the actuarial amounts mentioned in the bill and GASB amounts may require all the systems to calculate both at additional cost.

Local Government Impact

No immediate significant fiscal implication to units of local government is anticipated.

The bill's language would allow political subdivisions to report retiree health benefits on a pay-as-you-go basis, or per the methodology proposed by GASB. If they chose to report on a pay-as-you-go basis, they would also have the option of reporting the GASB required information in their footnotes. As per the above analysis, this would mean for those opting out of GASB reporting, financial statements would receive qualified and/or adverse opinions from outside auditors and their bond ratings could be affected, which would have a significant long-term fiscal impact.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 352 Bond Review Board

LBB Staff: JOB, KJG, SD, WM