LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 23, 2007

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions & Investments

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 Introduced**

No immediate significant fiscal implication to the State is anticipated.

The bill would require the state and political subdivisions of the state to follow state statutory standards of accounting as described in the bill. It describes a statutory modified accrual accounting basis, and states that any accounting requirements for other postemployment benefits at the government-wide or fund level on any basis other than pay-as-you-go do not apply to the state or its political subdivisions.

The bill would have the practical impact of exempting Texas from the Governmental Accounting Standards Board (GASB) statements 43 and 45. These statements require governmental entities to account for other postemployment benefits (OPEBs), in particular retiree health benefits, in a manner similar to methods used for pension benefits. Not following GASB standards would have the effect of making Texas financial statements no longer follow the official standard of Generally Accepted Accounting Principles, which would likely lead to adverse opinions by outside auditors. Adverse opinions on Texas financial statements would likely cause concern among bond rating agencies. Additionally, bond rating agencies have said that if the GASB OPEB estimates were not provided, it either could or would be a significant negative factor in their bond rating of Texas. 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 Teacher Retirement System reports it would save some funds in the near future by not having 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.

Local Government Impact

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

The bill's language would prohibit any political subdivision from accounting for OPEBs per the methodology proposed by GASB. As per the above analysis, this would mean their financial statements would receive adverse opinions from outside auditors and their bond ratings could be affected, which would have a significant long-term fiscal impact.

Some local governments have said they would want to provide the GASB OPEB liability estimates and this bill would require them to perform additional analyses to account for the state requirements as well.

Montgomery County reported that implementing the provisions of the bill would require them to hire an actuary to determine future liability at an initial cost of $50,000 in fiscal year 2008 and in every even-numbered fiscal year afterwards.

The city of Carrollton reported costs from $0 to $530,000, depending on interpretations of the provisions of the bill.

The city of Sherman reported costs of $19,740 in fiscal year 2008 for new staff and additional audit fees. These costs would rise to $24,475 by fiscal year 2012. The additional auditing fees could rise if the city is required to have two sets of audited books, one that meets state requirements and one that meets national requirements.

The cities of Houston and Waco and the counties of Denton and El Paso reported that implementing the provisions of the bill would have no fiscal impact on their budgets.

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

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