

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 18, 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.), **Committee Report 2nd House, Substituted**

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 (OPEBs) 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 requirements in Governmental Accounting Standards Board (GASB) statement 45, and potentially some in GASB statement 43. GASB 45 requires governmental entities to account for OPEBs, in particular retiree health benefits, in a manner similar to methods used for pension benefits.

The bill partly outlines how the state shall account for OPEBs, and would allow Texas to exempt itself from following GASB standards of accounting for OPEBs. This would result in Texas financial statements no longer following 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 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.

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 that 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

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