HOUSE RESEARCH ORGANIZATION bill analysis | 5/3/95 | SB 409 Ratliff (CSSB 409 by Telford)

SUBJECT: Accounting treatment of Permanent School Fund securities purchases

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Telford, Johnson, Averitt, McCall, Rangel

0 nays

4 absent — Berlanga, Haggerty, Willis, Wilson

SENATE VOTE: On final passage, March 21 — 30-0

WITNESSES: For — Carlos Resendez, Texas Education Agency

Against — None

BACKGROUND: The Permanent School Fund (PSF) has a market value of more than $11 billion and earnings of about $700 million per year. The earnings from the PSF go into the Available School Fund, which is distributed on a per capita basis to school districts, regardless of district property wealth, to support public education.

DIGEST: CSSB 409 would change the method of accounting used by the Permanent School Fund (PSF) in paying income from fixed-securities to the Available School Fund (ASF). It would require the PSF to pay the ASF the market yield at the time the security was purchased instead of the method now in use. It would require that income on fixed-income securities purchased at a premium (more than face value) be paid at a market rate throughout the term of the bond, rather than repaying the premium into the PSF from the first income received. Income from fixed-income securities purchased at a discount (less than face value) would be paid at market rate throughout the term of the bond, instead of waiting until the bond matured.

The bill would take effect September 1, 1995, and would apply to fixed-income securities no matter when they were purchased.

SUPPORTERS SAY:

CSSB 409 would require the State Board of Education to apply generally accepted accounting principals (GAAP) to the computation of bond interest owed to the AUF instead of the current statutory accounting method, which has not been revised since 1969. The change would affect accounting of premiums and discounts received on fixed-income securities.

The bill would allow the PSF to pay the ASF the market interest rate at the time fixed-income securities are purchased. This would have the effect of speeding up the payments to the Available School Fund and would allow ASF to realize an additional $40 million in income from the Permanent School Fund in 1996 and as much as $3 million in future years, depending on interest rates.

The change in the accounting method would not affect the principal value of the Permanent School Fund. It would only allow the ASF to realize income from the PSF based on modern accounting principles.

OPPONENTS SAY:

No apparent opposition.

NOTES:

The committee substitute would amend current law in the Education Code rather than add a new provision to the Government Code and provide for a September 1, 1995, effective date rather than immediate effect.