

- SUBJECT:** Capitalizing employee costs on certificate of obligation financed projects
- COMMITTEE:** County Affairs — committee substitute recommended
- VOTE:** 7 ayes — R. Allen, Casteel, Coleman, Farabee, Laney, Naishtat, Otto
0 nays
2 absent — W. Smith, Olivo
- WITNESSES:** For — David Smith, Bexar County Commissioners Court
Against — None
- BACKGROUND:** Under the Certificate of Obligation Act (Local Government Code, ch. 271, subch. E), issuers may apply proceeds from certificates of obligation to pay for contract work on construction, certain purchases, and water and sewer treatment projects. Certificate proceeds may not pay for work done by the issuer's employees. Employee costs must be expensed to the issuer and cannot be capitalized as part of the project.
- DIGEST:** As an alternative to expensing costs, CSHB 1232 would authorize issuers to capitalize the cost of work that was directly applicable under generally accepted accounting principles (GAAP) to the cost of the project, including costs attributable to its own employees.
- The bill would allow proceeds to pay for work done by the issuer's employees only on a project for which the certificates were issued. Proceeds only could be used to reimburse the issuer for direct costs, as required under GAAP, and could be used to pay for work done by other employees only if the issuer incurred equal or greater costs to make up for the work these employees otherwise would have done.
- The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2005.

**SUPPORTERS
SAY:**

CSHB 1232 would align Texas law with GAAP to allow issuers of certificates of obligations, specifically counties, to make better financial decisions. Under current law, a county may not capitalize the work done by its employees on county projects financed through certificates, whereas these costs may be capitalized under GAAP for most nongovernmental employers. Generally, costs associated with government employees are more cost effective for completing projects than contracting out services. Therefore, the bill would help public employers reduce project costs.

Local Government Code, ch. 271. 50 already permits this practice for all costs directly related to water- and sewer-related projects. SB 721 by Duncan, enacted by the 75th Legislature in 1997, added flexibility and cost savings to allow municipal employees to receive payment through proceeds rather than using contractual employees on such projects.

The bill would help counties, which have very little financial flexibility, to complete projects at reduced costs. A county must contract out services at a higher rate to complete projects because current law limits its use of certificate proceeds and prohibits them from funding their employees with proceeds.

**OPPONENTS
SAY:**

Current law appropriately prevents a public employer from paying its workforce with certificate proceeds. This bill could permit certificate proceeds to pay employees for work done on non-proceed related projects, and therefore create false accounting practices and authorize work for which a county had not budgeted.

NOTES:

The substitute added that:

- project costs acceptable under GAAP could be capitalized;
- only work directly related to a project could be capitalized;
- work performed in lieu of work done on projects could be funded with certificate proceeds rather than expensed; and
- an issuer could not be reimbursed for indirect costs.