

## RESEARCH

# New Texas Law Affecting State And Local OPEB Reporting Will Have No Immediate Rating Impact

Publication date: 05-Jun-2007

Primary Credit Analyst:

Secondary Credit Analysts:

**Media Contact:**

NEW YORK (Standard & Poor's) June 5, 2007—Standard & Poor's Ratings Services said today that a new law affecting other postemployment benefits (OPEB) reporting for Texas (AA/Stable) state and local governments, if put into effect, would not have an immediate impact on ratings in the state.

The proposed law would allow the state and its political subdivisions to avoid accounting for OPEBs on the accrual-based method specified under GASB Statement No. 45, with an option to make GASB 45-like supplemental disclosures.

"We anticipate that most entities will be able to continue to successfully manage their OPEB liabilities and costs, at least over the near term," said Standard & Poor's Ratings Services credit analyst Parry Young.

GASB 45 presents the accounting and reporting standards for OPEBs--mainly retiree health care benefits--and is effective for fiscal periods beginning after Dec. 15, 2006, for larger governments. The Texas Legislature passed the proposed law in late May, and it has moved to Gov. Rick Perry's office for his signature.

Standard & Poor's criteria for GO debt financial analysis includes the following passage from pages 61 and 62 of the 2007 Public Finance Criteria book: "The first important variable in judging financial performance is the method of accounting and financial reporting. Based on the guidelines of Generally Accepted Accounting Principles (GAAP), Standard & Poor's assesses an entity's financial reports. Emphasis is placed on the government's primary government/major funds (general, debt service, and special revenue funds), which, under GASB 34, are now called fund financial statements and its governmentwide statements, which provide a broad overview that provides an all-encompassing view of the government's finances. Further, GASB interpretations of accounting rulings are considered in evaluating the organization of funds, accruals, and other financial reporting methods. GAAP reporting is considered a credit strength, and the ability to meet the Government Finance Officers Association's Certificate of Conformance reporting requirements also is viewed favorably. Enhancing public disclosure is a government's Comprehensive Annual Financial Report (CAFR), which includes significant financial data and various statistical data to supplement the accounting statements. Issuers are expected to supply adequate and timely financial reports. Financial reports prepared by an independent certified public accountant are preferred. Lack of an audited financial report prepared according to GAAP could have a negative impact on an issuer's rating, since questions about reporting will be raised. If state agencies or other internal government units prepare financial reports, Standard & Poor's is interested in any deviation from GAAP standards and the independence of the auditors preparing the reports."

OPEB obligations are not new, and Standard & Poor's views the management of OPEB commitments by employers as part of its analysis of their overall cost structure. We look at employers' comprehensive plans for managing their OPEB obligations and similar competing pressures, and expect these commitments to be handled in a way that does not adversely affect their ability to pay debt service on their bonds.

If Texas governmental entities do not provide sufficient OPEB information as part of their normal disclosures, we will request additional information. The inability to obtain this information could have negative credit implications.