

General Assembly
January Session, 2007

Raised Bill No. 1404

LCO No. 4705



Referred to Committee on Appropriations

Introduced by:
(APP)

AN ACT CONCERNING THE ESTABLISHMENT OF AN ACCOUNT TO FUND THE TWENTY-SEVENTH STATE PAYROLL PERIOD.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective from passage*) There is established the "GAAP salary reserve account" which shall be a separate nonlapsing account within the General Fund. The account shall be used to provide funds required for the periodic occurrence of an additional, twenty-seventh payroll period during a single fiscal year. For the fiscal year ending June 30, 2007, the General Assembly shall appropriate sixty million dollars to such account. For the fiscal year ending June 30, 2008, and each fiscal year thereafter, the General Assembly shall appropriate twelve million dollars to such account. In the fiscal year following any fiscal year during which such twenty-seventh payroll occurs, the Comptroller shall report to the General Assembly concerning the amount of the annual appropriation to said reserve fund required to fund the next succeeding additional payroll period.

This act shall take effect as follows and shall amend the following sections:

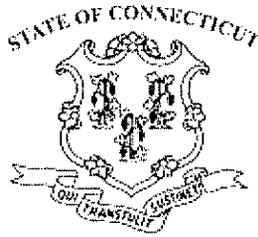
Section 1	<u>from passage</u>	New section
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Statement of Purpose:

To establish an account for payment of each 27th payroll. Requested by the State Comptroller.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]

(1)



Substitute House Bill No. 7338

Public Act No. 07-229

AN ACT CONCERNING THE IMPLEMENTATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP).

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subsection (a) of section 3-115b of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2009*):

(a) Effective with the fiscal year commencing July 1, [2007] 2009, the Comptroller is authorized to implement the use of generally accepted accounting principles, as prescribed by the [Government Accounting Standards Board] Comptroller, with respect to the preparation and maintenance of the annual financial statements of the state, and the Office of Policy and Management is authorized to implement the use of generally accepted accounting principles, as prescribed by the [Government Accounting Standards Board] Comptroller, with respect to the preparation of the annual budget of the state.

Approved July 6, 2007

(2)

PRESIDING CHAIRMEN: Senator Harp

Representative Merrill

COMMITTEE MEMBERS PRESENT:

SENATORS: Cappiello, Debicella, Duff,
Freedman, McKinney, Prague, Slossberg

REPRESENTATIVES: Heinrich, Hewett,
Tercyak, DelGobbo, Candelora, Chapin,
Dillon, Fleischmann, Nafis, Ritter,
Roy, Thompson, Truglia, Urban, Walker,
Willis

SENATOR HARP: Hello. We would like to call the hearing back to order. We will go first to our state agency list of people testifying today, and we'll start with our Comptroller, Nancy Wyman.

COMPTROLLER NANCY WYMAN: Good afternoon, Senator Harp, Representative Merrill, and Distinguished Members of the Appropriations Committee. For the record, I am State Comptroller Nancy Wyman. I would like to thank you for raising several of my legislative proposals and for the opportunity to testify.

I support Senate Bill 1404, AN ACT CONCERNING ESTABLISHMENT OF AN ACCOUNT TO FUND THE 27th PAYROLL, which would create a long-term funding approach to address the 27th or extra payroll which occurs every 11th year.

The 27th payroll will occur based upon the biweekly payroll in fiscal year 2012. Based upon the most recent disbursement of the 27th payroll in the fiscal year 2000, it was \$90 million, which was required to meet the obligation.

And fortunately at that time, we did have a surplus to draw it out of. We estimate that the state will need approximately \$120 million in fiscal year 2012.

The General Fund is the only state fund with the perpetual GAAP deficit and the one of most concern to our bond rating agencies.

In 1994, when my office and the Office of Policy and Management prepared GAAP for conversion, it was determined that for the purposes of spending cap expenditures related

to the GAAP deficit, it would be considered extraordinary circumstances.

I have introduced this proposal in prior years and believe that the state should prepare for a known future financial obligation.

I am requesting that the Legislature establish a separate non-lapsing fund called the GAAP Salary Reserve Fund within the General Fund and appropriate an annual amount of approximately one-tenth of the obligation.

We are five years away from the \$120 million payment, and I am asking the Legislature to appropriate \$60 million out of the current budget surplus, and then each year after that \$12 million to fund so that we will be totally funded by 2012.

And after that fund, that I will come with a report to you asking to give you an update on when the next disbursement would be.

The impact of this GAAP deficit with respect to our positions in the financial market is similar to what we will face in the scrutiny of our other post-employment benefits liability known as OPEB and the strategies we employ to address that liability.

That is why I have recommended setting up an irrevocable trust fund with respect to addressing GASB 45 reporting changes. House Bill 7338, AN ACT CONCERNING THE IMPLEMENTATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

This bill changes the generally accepted accounting requirement in that the Comptroller would establish the standards of GAAP reporting rather than the GASB, the Governmental Accounting Standard Board.

This is consistent with the requirement that the Comptroller Office interpret GASB requirements pertaining to GAAP for purposes of budget implementation.

This would provide the state greater flexibilities in implementing GAAP budgetary standards and would allow myself and Secretary Genuario to begin the discussion on the plan to move towards GAAP accounting, GAAP implementation for budget purposes intended to place the state on a consistent accounting basis whereby we use the state accounting methodologies for revenues and expenses.

This does not necessarily require following strict GASB requirements. It's preferable too that our accounting and budgetary system can be on the same basis.

However, respected practice guide for GAAP compliance recognizes that reporting and budgeting the distinction between the financial reporting standards and financing of government expenditures.

This bill would put the Comptroller in the position to better advise and help you move into closing the GAAP.

The flexibility of this bill would give, let me give you an example. If GASB came out and basically said that we had to change the time that we accrued our money, we would be able to not have to go into it immediately, but be able to find ways of slowing accruing into that.

OFFICE OF FISCAL ANALYSIS

(3)

Legislative Office Building, Room 5200

Hartford, CT 06106 ◊ (860) 240-0200

<http://www.cga.ct.gov/ofa>

sHB-7338

AN ACT CONCERNING THE IMPLEMENTATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP).

OFA Fiscal Note

State Impact: None

Municipal Impact: None

Explanation

The bill requires the State Comptroller to prescribe the use of generally accepted accounting principles (GAAP) that she is authorized to implement and has no immediate fiscal impact. Current law requires the Governmental Accounting Standards Board (GASB) to prescribe the use of GAAP. Any future impact would be dependent on how the State Comptroller varied from the GASB in prescribing the use of GAAP.

BACKGROUND

State Implementation of GAAP

The budget, sHB 7077 (Sec. 78) as approved by the Appropriations Committee, specifies that the Comptroller and the Secretary of the Office of Policy and Management are not required to implement the use of GAAP in accordance with the provisions of CGS 3-115b during the fiscal years ending June 30, 2008, and June 30, 2009.

The Office of the State Comptroller currently produces a Comprehensive Annual Financial Report based on GAAP. The preliminary results for FY 2006 have been published and show a GAAP deficit of \$1.058 billion.

PA 07-229—sHB 7338 (VETOED)

(4)

Appropriations Committee

AN ACT CONCERNING THE IMPLEMENTATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

SUMMARY: Starting in FY 09, the act requires the state comptroller, instead of the Governmental Accounting Standards Board (GASB), to prescribe the generally accepted accounting principles (GAAP) that (1) the comptroller can use to prepare and maintain the state's annual financial statements and (2) the Office of Policy and Management (OPM) can use to prepare the annual state budget.

The act also delays the use of GAAP for those purposes from July 1, 2007 to July 1, 2009. The provision has no effect since the act is not effective until the end of the two-year delay. (PA 07-1, June Special Session, corrects this provision by making the two-year delay effective July 1, 2007.)

EFFECTIVE DATE: July 1, 2009

BACKGROUND

Governmental Accounting Standards Board (GASB)

GASB is an independent, private, not-for-profit organization that establishes standards of financial accounting and reporting for state and local governments. Governments and the accounting industry recognize GASB as the official source of GAAP for state and local governments.

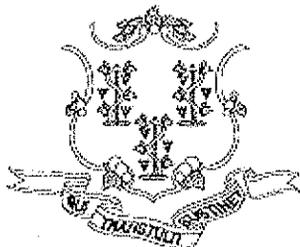
Related Act

PA 07-1, June Special Session, also delays GAAP implementation for two years. It makes corresponding two-year delays in requirements that (1) the comptroller and the OPM secretary prepare a conversion plan and submit the plan to the Appropriations Committee and (2) starting on the conversion date, the comptroller establish an opening combined balance sheet for all appropriated funds, with the accrued and unpaid expenses from prior years aggregated and carried as a deferred charge on the state's combined balance sheet and amortized in equal installments in state budgets over 15 fiscal years. The delay provisions of PA 07-1, June Special Session, take effect July 1, 2007.

OLR Tracking: JSL: SC: PF: RO

The Office of Governor M. Jodi Rell

(5)



M. JODI RELL
GOVERNOR

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD, CONNECTICUT 06106

FOR IMMEDIATE RELEASE
July 6, 2007

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Governor Rell Vetoes GAAP Bill

Governor M. Jodi Rell today vetoed a bill that would have authorized the State Comptroller to prescribe the use of generally accepted accounting principles (GAAP). Current law requires the Governmental Accounting Standards Board (GASB) to prescribe the use of GAAP.

"I have serious concerns about the potential fiscal impact this bill may have on the state," Governor Rell said. "The plain language of this bill would allow the Comptroller to issue financial statements using whatever standards she prescribed. While our current Comptroller does not intend to deviate from GAAP for financial reporting purposes, there is nothing in the bill that would prevent a future Comptroller from doing so."

GASB is an independent, private-sector, not-for-profit organization that establishes standards of financial accounting and reporting for state and local governments. Governments and the accounting industry recognize the GASB as the official source of GAAP for state and local governments.

"Transparency and confidence in government financial reporting are based on adherence to uniform standards that are independently established and free from commercial and political influence," Governor Rell said. "Bond investors and those making economic decisions have a clear understanding of statements prepared in conformity with GAAP. To deviate from this standard would jeopardize the financial standing of our state. As Governor, I cannot risk that possibility."

"I understand the intended purpose of this legislation and I have no objection to providing the Office of the Comptroller and the Office of Policy and Management the flexibility they need in preparing our state budget. This bill, however, goes well beyond providing that flexibility."

The bill, HB 7338, An Act Concerning the Implementation of Generally Accepted Accounting Principles (GAAP), is the sixth of the 2007 Legislative Session that the Governor has vetoed.