

BILL ANALYSIS

Senate Research Center
80R15147 MXM-F

H.B. 2365
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State Affairs
5/16/2007
Engrossed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45), creating accounting standards for a governmental entity's "other post employment benefits" (OPEB). GASB 45, which began to go into effect in December 2006, requires governments that had not contracted for or obligated future tax dollars for these benefits to report future benefit costs as if they were obligated. Furthermore, GASB 45 requires any funding reserved to address recognized OPEB liabilities to be put in an irrevocable trust that could not be redistributed to other governmental needs if the original OPEB estimates turn out to be too large. GASB 45 is an accounting rule requiring governments to report and pre-fund an OPEB liability, even when there is no legal basis for doing so. Additionally, the liability measurement required under this standard does not provide a reasonably accurate measurement, creating a potential for false or misleading financial statements.

Texas law prescribes how Texas governments create and fund debt. If governmental entities in Texas choose to comply with Texas law and not follow GASB 45, other accounting standards need to be established to ensure compliance with the remainder of the generally accepted accounting principles.

H.B. 2365 establishes an alternative, statutorily-based, and comprehensive basis of accounting for Texas governments since GASB 45 could lead to inaccurate and inappropriate reporting of OPEB obligations in Texas.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the comptroller of public accounts in SECTION 2 (Section 2264.109, Government Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Sets forth the legislative findings relating to financial accounting and reporting for this state and political subdivisions of this state.

SECTION 2. Amends Subtitle F, Title 10, Government Code, by adding Chapter 2264, as follows:

CHAPTER 2264. FINANCIAL ACCOUNTING AND REPORTING

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2264.001. APPLICABILITY. Provides that this chapter applies to this state and to each political subdivision thereof.

Sec. 2264.002. APPLICABILITY TO COMPONENT UNITS. Provides that the statutory accounting principles and reporting standards in this chapter apply to an entity to the extent that it is reported in the financial statement of the state or a political subdivision as a component unit.

[Reserves Sections 2264.003-2264.050 for expansion.]

SUBCHAPTER B. FINANCIAL ACCOUNTING AND REPORTING STANDARDS

Sec. 2264.051. REQUIREMENTS FOR SYSTEM OF ACCOUNTING AND REPORTING. Sets forth specified requirements for the system of accounting for and reporting the financial activities of this state and its political subdivisions.

Sec. 2264.052. STATUTORY MODIFIED ACCRUAL BASIS. (a) Defines a statutory modified accrual basis.

(b) Authorizes this state and its political subdivisions to account for and report selected types of financial activities on a statutory modified accrual basis for government-wide and fund-level internal and external financial statement reporting.

Sec. 2264.053. COMPLIANCE WITH ACCOUNTING PRINCIPLES. Provides that compliance with the statutory accounting principles of this chapter by the state or a political subdivision thereof satisfies another statute that requires accounting and reporting according to generally accepted accounting principles.

[Reserves Sections 2264.054-2264.100 for expansion.]

SUBCHAPTER C. OTHER POSTEMPLOYMENT BENEFITS

Sec. 2264.101. DEFINITIONS. (a) Defines "other postemployment benefits," "pay-as-you-go," "state system," and "substantive plan."

Sec. 2264.102. ACCOUNTING FOR OTHER POSTEMPLOYMENT BENEFITS. Provides that to the extent that generally accepted accounting principles require accounting or reporting of other postemployment benefits at the government-wide or fund level on any basis other than pay-as-you-go, this state and its political subdivisions may account for or report those benefits in accordance with the accounting principles in this chapter.

Sec. 2264.103. COMMUNICATION OF STATE SYSTEM'S OBLIGATIONS TO PROVIDE OTHER POSTEMPLOYMENT BENEFITS. (a) Defines "member."

(b) Requires a state system to fully disclose to its members that the system is not obligated to provide benefits beyond existing statutory, constitutional, or other legal requirements, including requirements that limit the duration for which benefits are legally obligated which limits appropriations to two years or less, and other requirements which limit expenditures to one year or less or some other term.

(c) Requires a state system to inform its members about the extent of the system's commitments regarding other postemployment benefits, including whether the other postemployment benefits are limited by funding obligations or whether the funding obligations extend throughout the life of the member.

(d) Requires a state system to disclose on the entity's website the information required by this section.

(e) Authorizes other governmental entities of this state or its political subdivisions to comply with this section.

Sec. 2264.104. DISCLOSURE OF INFORMATION ON FINANCIAL STATEMENTS; GENERALLY. (a) Requires this state or a political subdivision thereof to disclose certain information in its notes to the financial statement.

(b) Requires this state or a political subdivision thereof, if other postemployment benefits have been advance-funded on an actuarially determined basis, to also disclose certain additional information in its notes to the financial statement.

Sec. 2264.105. ADDITIONAL FINANCIAL DISCLOSURE REQUIREMENTS FOR THE STATE. (a) Requires the state, if it does not intend for other postemployment benefits to be guaranteed benefits in future years, to present the financial statements and schedules in a manner consistent with this subchapter.

(b) Requires this state, if it intends that other postemployment benefits be a potential benefit in future years as funding is made available by the state in accordance with state constitutional and statutory provisions, to report certain information in a manner consistent with this subchapter.

(c) Requires the schedules required under this section to disclose, for information purposes only, the expense and liability that would exist if other postemployment benefits had been guaranteed and earned by employees.

Sec. 2264.106. ADDITIONAL OPTIONAL FINANCIAL DISCLOSURE FOR POLITICAL SUBDIVISIONS. (a) Authorizes a political subdivision of this state to disclose, for informational and planning purposes only, the expense and liability that would exist if other postemployment benefits had been guaranteed to members.

(b) Authorizes a political subdivision to make this supplemental disclosure in its other supplemental statistical information to the financial statements by disclosing certain information.

Sec. 2264.107. COMPTROLLER WEBSITE. (a) Requires the comptroller of public accounts (comptroller) to maintain a website to provide guidance to the state and its political subdivisions in implementing the requirements and goals of this subchapter.

(b) Requires the website to include certain information.

Sec. 2264.108. COMPTROLLER ADVICE AND REPORTING REQUIREMENTS. (a) Requires the comptroller to issue reporting requirements for state retirement systems, including state systems under Section 2264.103, to provide guidance on how to comply with accounting principles in a manner consistent with this subchapter.

(b) Requires the comptroller to provide advice to a political subdivision of this state that requests such advice in a manner consistent with this subchapter.

Sec. 2264.109. OTHER POSTEMPLOYMENT BENEFITS TRUST FUND. (a) Authorizes the comptroller to establish and administer an other postemployment benefits trust fund for state systems to aggregate other postemployment benefits as considered appropriate by the comptroller and the governing bodies of the contributing state systems.

(b) Authorizes the comptroller, subject to the consent of the governing body of the appropriate state system, to transfer money to and from a fund of that state system into and out of the trust fund. Provides that funds held in trust by a state system and transferred to the other postemployment benefits trust fund under this section continue to be held in trust for the same persons and purposes.

(c) Requires the comptroller to account separately for each state system's contributions, including investment income for the contributions.

(d) Authorizes the comptroller to adopt rules to implement this section.

(e) Provides that to the extent of a conflict between this section and another law, this section controls.

SECTION 3. Amends Section 112.002(c), Local Government Code, to prohibit a regulation under this section (Accounting System in County with County Auditor and Population of 190,000 or More) from being inconsistent with generally accepted accounting principles, except as provided by Chapter 2264, Government Code. Deletes existing text relating to accounting principles established by the Governmental Accounting Standards Board.

SECTION 4. Makes application of this Act prospective to the 2007 fiscal year. Requires each state system to which Section 2264.103, Government Code, as added by this Act, applies to comply with that section not later than December 1, 2007.

SECTION 5. Effective date: upon passage or August 27, 2007.