

## **BILL ANALYSIS**

Senate Research Center

C.S.H.B. 2365  
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State Affairs  
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Committee Report (Substituted)

### **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.

C.S.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. Requires this state or a political subdivision thereof to disclose certain information in its notes to the financial statement in a manner consistent with this subchapter.

Sec. 2264.105. ADDITIONAL OPTIONAL FINANCIAL DISCLOSURES. (a) Authorizes this state or a political subdivision to disclose, for informational and planning

purposes only and in a manner consistent with this subchapter, the expense and liability that would exist if other postemployment benefits had been guaranteed to members.

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

Sec. 2264.106. 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. 2264.107. COMPTROLLER ADVICE AND REPORTING REQUIREMENTS. (a) Requires the comptroller to issue reporting requirements for state retirements for state retirement systems, including state systems, 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.

SECTION 3. Repealer: Section 112.002(c) (relating to a regulation adopted under this subsection), Local Government Code.

SECTION 4. (a) Provides that the changes in law made by this Act apply to financial accounting and reporting by a governmental entity subject to Chapter 2264, Government Code, as added by this Act, beginning with fiscal year 2007 including the Teacher Retirement System of Texas, and beginning with fiscal year 2008 for the Employees Retirement of [sic] System of Texas, The Texas A&M University System and The University of Texas System.

(b) Requires the Teacher Retirement System of Texas, not later than December 1, 2007, to comply with Section 2264.103, Government Code, as added by this Act. Requires the Employees Retirement of [sic] System of Texas, The Texas A&M University System, and The University of Texas System, not later than December 1, 2008, to comply with Section 2264.103, Government Code, as added by this Act.

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