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H.B. No. 2365

A BILL TO BE ENTITLED

AN ACT

1  
2 relating to financial accounting and reporting for this state and  
3 political subdivisions of this state.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5 SECTION 1. (a) The legislature finds that:

6 (1) state and local governments provide essential  
7 services funded by statutorily authorized taxes and fees and not by  
8 cost recovery-based rate or price models;

9 (2) state and local government operations derive  
10 authority from and are regulated by the Texas and federal  
11 constitutions and statutes; and

12 (3) financial accounting and reporting should  
13 accurately reflect government activities and not mislead or  
14 misinform the public.

15 (b) The legislature further finds that:

16 (1) state and local governments cannot provide certain  
17 postemployment benefits that exceed existing statutory,  
18 constitutional, or other legal requirements, including  
19 requirements that limit the duration for which benefits are legally  
20 obligated such as Section 6, Article VIII, Texas Constitution,  
21 which limits appropriations to two years or less, and other  
22 requirements which limit expenditures to one year or less or some  
23 other term; and

24 (2) it is in the interest of state and local

1 governments to communicate the requirements of Subdivision (1) of  
2 this subsection to persons who receive or may receive  
3 postemployment benefits from state or local governments.

4 SECTION 2. Subtitle F, Title 10, Government Code, is  
5 amended by adding Chapter 2264 to read as follows:

6 CHAPTER 2264. FINANCIAL ACCOUNTING AND REPORTING

7 SUBCHAPTER A. GENERAL PROVISIONS

8 Sec. 2264.001. APPLICABILITY. This chapter applies to this  
9 state and to each political subdivision of this state.

10 Sec. 2264.002. APPLICABILITY TO COMPONENT UNITS. To the  
11 extent an entity is reported on the financial statement of the state  
12 or a political subdivision as a component unit, the statutory  
13 accounting principles and reporting standards in this chapter apply  
14 to that entity.

15 [Sections 2264.003-2264.050 reserved for expansion]

16 SUBCHAPTER B. FINANCIAL ACCOUNTING AND REPORTING STANDARDS

17 Sec. 2264.051. REQUIREMENTS FOR SYSTEM OF ACCOUNTING AND  
18 REPORTING. The system of accounting for and reporting the  
19 financial activities of this state and its political subdivisions:

20 (1) must be consistent with state financial laws;

21 (2) may not misrepresent the nature, scope, or  
22 duration of the financial activities of the state or political  
23 subdivision; and

24 (3) may follow the statutory standards in this chapter  
25 when other accounting bases conflict with state law.

26 Sec. 2264.052. STATUTORY MODIFIED ACCRUAL BASIS. (a) In  
27 this state, a statutory modified accrual basis qualifies as another

1 comprehensive basis of accounting that recognizes revenue when it  
2 is measurable and available to finance current expenditures and  
3 recognizes expenditures when they are normally expected to be  
4 liquidated with current financial resources regardless of when they  
5 mature.

6 (b) This state and its political subdivisions may account  
7 for and report selected types of financial activities on a  
8 statutory modified accrual basis for government-wide and  
9 fund-level internal and external financial statement reporting.

10 Sec. 2264.053. COMPLIANCE WITH ACCOUNTING PRINCIPLES.  
11 Compliance with the statutory accounting principles of this chapter  
12 by this state or a political subdivision satisfies any other law  
13 that requires accounting and reporting according to generally  
14 accepted accounting principles, including Section 403.013 or  
15 2101.012.

16 [Sections 2264.054-2264.100 reserved for expansion]

17 SUBCHAPTER C. OTHER POSTEMPLOYMENT BENEFITS

18 Sec. 2264.101. DEFINITIONS. In this subchapter:

19 (1) "Other postemployment benefits" means employee  
20 benefit programs for which coverage or eligibility extends to  
21 retired employees. The term does not include pension benefits.

22 (2) "Pay-as-you-go" means benefit plan financing  
23 generally made at or about the same time and in or about the same  
24 amount as benefit payments and expenditures become due.

25 (3) "State system" means:

26 (A) the Employees Retirement System of Texas;

27 (B) the Teacher Retirement System of Texas;

1           (C) The Texas A&M University System; or

2           (D) The University of Texas System.

3           (4) "Substantive plan" means a plan providing other  
4 postemployment benefits approved by the governing body of the plan  
5 provider according to the laws and constitution of this state.

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

14           Sec. 2264.103. COMMUNICATION OF STATE SYSTEM'S OBLIGATIONS  
15 TO PROVIDE OTHER POSTEMPLOYMENT BENEFITS. (a) In this section,  
16 "member" means a person to whom a state system provides, or has  
17 promised to provide, other postemployment benefits, including:

18                   (1) a retiree, annuitant, or employee; or

19                   (2) a spouse, surviving spouse, or other dependent.

20           (b) A state system shall fully disclose to its members that  
21 the system is not obligated to provide benefits beyond existing  
22 statutory, constitutional, or other legal requirements. This  
23 includes requirements that limit the duration for which benefits  
24 are legally obligated such as Section 6, Article VIII, Texas  
25 Constitution, which limits appropriations to two years or less, and  
26 other requirements which limit expenditures to one year or less or  
27 some other term.

1       (c) A state system shall inform its members about the extent  
2 of the system's commitments regarding other postemployment  
3 benefits, including whether the other postemployment benefits are  
4 limited by funding obligations or whether the funding obligations  
5 extend throughout the life of the member.

6       (d) A state system shall disclose on the entity's website  
7 the information required by this section.

8       (e) Other governmental entities of this state or its  
9 political subdivisions may comply with this section.

10       Sec. 2264.104. DISCLOSURE OF INFORMATION ON FINANCIAL  
11 STATEMENTS; GENERALLY. (a) This state or a political subdivision  
12 of this state shall disclose in its notes to the financial  
13 statement:

14           (1) other postemployment benefits that it provides in  
15 its substantive plan, including:

16                   (A) the covered employee groups;

17                   (B) eligibility requirements; and

18                   (C) the amount, described in an appropriate  
19 manner, of obligations that it and the member contribute;

20           (2) the statutory, contractual, or other authority  
21 under which other postemployment benefits are provided under  
22 Subdivision (1);

23           (3) the accounting, financing, and funding policies  
24 that it follows;

25           (4) the amount of other postemployment benefits  
26 expenditures that it recognizes during the period, net of member  
27 contributions;

1           (5) the number of members currently eligible to  
2 receive other postemployment benefits;

3           (6) any significant matters that affect the  
4 comparability of the disclosures required by this section with  
5 those for the previous period; and

6           (7) any additional information that it believes will  
7 assist in explaining the nature and cost of its commitment to  
8 provide other postemployment benefits.

9           (b) If other postemployment benefits have been  
10 advance-funded on an actuarially determined basis, this state or a  
11 political subdivision of this state shall also disclose in its  
12 notes to the financial statement:

13           (1) the actuarial cost method and significant  
14 actuarial assumptions used to determine funding requirements, and  
15 the method used to value plan assets;

16           (2) the number of active plan members;

17           (3) the actuarially required contributions for the  
18 period;

19           (4) the actual contributions net of member  
20 contributions for the period;

21           (5) the amount of net assets available for other  
22 postemployment benefits; and

23           (6) the actuarial accrued liability and unfunded  
24 actuarial accrued liability for other postemployment benefits  
25 according to the actuarial cost method in use.

26           Sec. 2264.105. ADDITIONAL FINANCIAL DISCLOSURE REQUIREMENTS  
27 FOR THE STATE. (a) If this state does not intend for other

1 postemployment benefits to be guaranteed benefits in future years,  
2 the state shall present the financial statements and schedules in a  
3 manner consistent with this subchapter.

4 (b) If the state intends that other postemployment benefits  
5 be a potential benefit in future years as funding is made available  
6 by the state in accordance with state constitutional and statutory  
7 provisions, this state shall, in a manner consistent with this  
8 subchapter:

9 (1) report its basic financial statement;

10 (2) disclose its intention in the notes to the  
11 financial statement; and

12 (3) add supplemental information as additional  
13 schedules presenting the government-wide financial statements.

14 (c) The schedules required under Subsection (b)(3) must  
15 disclose, for informational purposes only, the expense and  
16 liability that would exist if other postemployment benefits had  
17 been guaranteed and earned by employees.

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

23 (b) The political subdivision may make this supplemental  
24 disclosure in its other supplemental statistical information to the  
25 financial statements by disclosing:

26 (1) its actuarial methods and assumptions or other  
27 estimation methodology;

- 1           (2) its net other postemployment benefits obligation;  
2           (3) its funding status and funding progress;  
3           (4) that the supplemental disclosure is for  
4 informational purposes only and is not an obligation or other  
5 promise to provide benefits beyond that approved by its governing  
6 body; and  
7           (5) any additional information that it believes will  
8 help explain the nature and cost of a potential commitment to  
9 provide other postemployment benefits.

10           Sec. 2264.107. COMPTROLLER WEBSITE. (a) The comptroller  
11 shall maintain a website to provide guidance to the state and its  
12 political subdivisions in implementing the requirements and goals  
13 of this subchapter.

14           (b) The site must include information that makes the site a  
15 resource tool for the state and its political subdivisions to  
16 consistently manage other postemployment benefits to conform to  
17 statutory, constitutional, and other legal requirements.

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

23           (b) The comptroller shall provide advice to a political  
24 subdivision of this state that requests advice on how to apply  
25 accounting principles in a manner consistent with this subchapter.

26           Sec. 2264.109. OTHER POSTEMPLOYMENT BENEFITS TRUST FUND.

27           (a) The comptroller may establish and administer an other



1 postemployment benefits trust fund for state systems to aggregate  
2 other postemployment benefits as considered appropriate by the  
3 comptroller and the governing bodies of the contributing state  
4 systems.

5 (b) The comptroller may, subject to the consent of the  
6 governing body of the appropriate state system, transfer money to  
7 and from a fund of that state system into and out of the trust fund.  
8 Funds held in trust by a state system and transferred to the other  
9 postemployment benefits trust fund under this section continue to  
10 be held in trust for the same persons and purposes.

11 (c) The comptroller shall account separately for each state  
12 system's contributions, including investment income for the  
13 contributions.

14 (d) The comptroller may adopt rules to implement this  
15 section.

16 (e) To the extent of a conflict between this section and  
17 another law, this section controls.

18 SECTION 3. Section 112.002(c), Local Government Code, is  
19 amended to read as follows:

20 (c) Except as provided by Chapter 2264, Government Code, a  
21 [A] regulation adopted under this section may not be inconsistent  
22 with generally accepted accounting principles [~~as established by~~  
23 ~~the Governmental Accounting Standards Board~~].

24 SECTION 4. (a) Except as provided by Subsection (b) of this  
25 section, the changes in law made by this Act apply to financial  
26 accounting and reporting by a governmental entity subject to  
27 Chapter 2264, Government Code, as added by this Act, beginning with

1 fiscal year 2007.

2 (b) Not later than December 1, 2007, each state system to  
3 which Section 2264.103, Government Code, as added by this Act,  
4 applies shall comply with that section.

5 SECTION 5. This Act takes effect immediately if it receives  
6 a vote of two-thirds of all the members elected to each house, as  
7 provided by Section 39, Article III, Texas Constitution. If this  
8 Act does not receive the vote necessary for immediate effect, this  
9 Act takes effect August 27, 2007.