

1 AN ACT

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 that 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 an

1 other comprehensive basis of accounting that recognizes revenue  
2 when it is measurable and available to finance current expenditures  
3 and 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 that 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. This state or a political subdivision of  
12 this state shall disclose in its notes to the financial statement in  
13 a manner consistent with this subchapter:

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           Sec. 2264.105. ADDITIONAL OPTIONAL FINANCIAL DISCLOSURES.

10 (a) This state or a political subdivision of this state may  
11 disclose, for informational and planning purposes only and in a  
12 manner consistent with this subchapter, the expense and liability  
13 that would exist if other postemployment benefits had been  
14 guaranteed to members.

15           (b) This state or a political subdivision may make this  
16 supplemental disclosure in its other supplemental statistical  
17 information to the financial statements by disclosing:

18           (1) its actuarial methods and assumptions or other  
19 estimation methodology;

20           (2) its net other postemployment benefits obligation;

21           (3) its funding status and funding progress;

22           (4) that the supplemental disclosure is for  
23 informational purposes only and is not an obligation or other  
24 promise to provide benefits beyond that approved by its governing  
25 body; and

26           (5) any additional information that it believes will  
27 help explain the nature and cost of a potential commitment to

1 provide other postemployment benefits.

2 Sec. 2264.106. COMPTROLLER WEBSITE. (a) The comptroller  
3 shall maintain a website to provide guidance to the state and its  
4 political subdivisions in implementing the requirements and goals  
5 of this subchapter.

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

10 Sec. 2264.107. COMPTROLLER ADVICE AND REPORTING  
11 REQUIREMENTS. (a) The comptroller shall issue reporting  
12 requirements for state retirement systems, including state  
13 systems, to provide guidance on how to comply with accounting  
14 principles in a manner consistent with this subchapter.

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

18 SECTION 3. Section 112.002(c), Local Government Code, is  
19 repealed.

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

27 (b) Not later than December 1, 2007, the Teacher Retirement

1 System of Texas shall comply with Section 2264.103, Government  
2 Code, as added by this Act. Not later than December 1, 2008, the  
3 Employees Retirement System of Texas, The Texas A&M University  
4 System, and The University of Texas System shall comply with  
5 Section 2264.103, Government Code, as added by this Act.

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



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President of the Senate

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Speaker of the House

I certify that H.B. No. 2365 was passed by the House on May 10, 2007, by the following vote: Yeas 142, Nays 0, 1 present, not voting; and that the House concurred in Senate amendments to H.B. No. 2365 on May 24, 2007, by the following vote: Yeas 142, Nays 0, 2 present, not voting.

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Chief Clerk of the House

I certify that H.B. No. 2365 was passed by the Senate, with amendments, on May 22, 2007, by the following vote: Yeas 28, Nays 3.

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Secretary of the Senate

APPROVED: \_\_\_\_\_

Date

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Governor