

1-1 By: Truitt, et al. (Senate Sponsor - Duncan) H.B. No. 2365  
1-2 (In the Senate - Received from the House May 11, 2007;  
1-3 May 15, 2007, read first time and referred to Committee on State  
1-4 Affairs; May 18, 2007, reported adversely, with favorable  
1-5 Committee Substitute by the following vote: Yeas 7, Nays 0;  
1-6 May 18, 2007, sent to printer.)

1-7 COMMITTEE SUBSTITUTE FOR H.B. No. 2365 By: Fraser

1-8 A BILL TO BE ENTITLED  
1-9 AN ACT

1-10 relating to financial accounting and reporting for this state and  
1-11 political subdivisions of this state.

1-12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-13 SECTION 1. (a) The legislature finds that:

1-14 (1) state and local governments provide essential  
1-15 services funded by statutorily authorized taxes and fees and not by  
1-16 cost recovery-based rate or price models;

1-17 (2) state and local government operations derive  
1-18 authority from and are regulated by the Texas and federal  
1-19 constitutions and statutes; and

1-20 (3) financial accounting and reporting should  
1-21 accurately reflect government activities and not mislead or  
1-22 misinform the public.

1-23 (b) The legislature further finds that:

1-24 (1) state and local governments cannot provide certain  
1-25 postemployment benefits that exceed existing statutory,  
1-26 constitutional, or other legal requirements, including  
1-27 requirements that limit the duration for which benefits are legally  
1-28 obligated such as Section 6, Article VIII, Texas Constitution,  
1-29 which limits appropriations to two years or less, and other  
1-30 requirements that limit expenditures to one year or less or some  
1-31 other term; and

1-32 (2) it is in the interest of state and local  
1-33 governments to communicate the requirements of Subdivision (1) of  
1-34 this subsection to persons who receive or may receive  
1-35 postemployment benefits from state or local governments.

1-36 SECTION 2. Subtitle F, Title 10, Government Code, is  
1-37 amended by adding Chapter 2264 to read as follows:

1-38 CHAPTER 2264. FINANCIAL ACCOUNTING AND REPORTING

1-39 SUBCHAPTER A. GENERAL PROVISIONS

1-40 Sec. 2264.001. APPLICABILITY. This chapter applies to this  
1-41 state and to each political subdivision of this state.

1-42 Sec. 2264.002. APPLICABILITY TO COMPONENT UNITS. To the  
1-43 extent an entity is reported on the financial statement of the state  
1-44 or a political subdivision as a component unit, the statutory  
1-45 accounting principles and reporting standards in this chapter apply  
1-46 to that entity.

1-47 [Sections 2264.003-2264.050 reserved for expansion]

1-48 SUBCHAPTER B. FINANCIAL ACCOUNTING AND REPORTING STANDARDS

1-49 Sec. 2264.051. REQUIREMENTS FOR SYSTEM OF ACCOUNTING AND  
1-50 REPORTING. The system of accounting for and reporting the  
1-51 financial activities of this state and its political subdivisions:

1-52 (1) must be consistent with state financial laws;  
1-53 (2) may not misrepresent the nature, scope, or  
1-54 duration of the financial activities of the state or political  
1-55 subdivision; and

1-56 (3) may follow the statutory standards in this chapter  
1-57 when other accounting bases conflict with state law.

1-58 Sec. 2264.052. STATUTORY MODIFIED ACCRUAL BASIS. (a) In  
1-59 this state, a statutory modified accrual basis qualifies as an  
1-60 other comprehensive basis of accounting that recognizes revenue  
1-61 when it is measurable and available to finance current expenditures  
1-62 and recognizes expenditures when they are normally expected to be  
1-63 liquidated with current financial resources regardless of when they

2-1 mature.

2-2 (b) This state and its political subdivisions may account  
 2-3 for and report selected types of financial activities on a  
 2-4 statutory modified accrual basis for government-wide and  
 2-5 fund-level internal and external financial statement reporting.

2-6 Sec. 2264.053. COMPLIANCE WITH ACCOUNTING PRINCIPLES.  
 2-7 Compliance with the statutory accounting principles of this chapter  
 2-8 by this state or a political subdivision satisfies any other law  
 2-9 that requires accounting and reporting according to generally  
 2-10 accepted accounting principles, including Section 403.013 or  
 2-11 2101.012.

2-12 [Sections 2264.054-2264.100 reserved for expansion]

2-13 SUBCHAPTER C. OTHER POSTEMPLOYMENT BENEFITS

2-14 Sec. 2264.101. DEFINITIONS. In this subchapter:

2-15 (1) "Other postemployment benefits" means employee  
 2-16 benefit programs for which coverage or eligibility extends to  
 2-17 retired employees. The term does not include pension benefits.

2-18 (2) "Pay-as-you-go" means benefit plan financing  
 2-19 generally made at or about the same time and in or about the same  
 2-20 amount as benefit payments and expenditures become due.

2-21 (3) "State system" means:

2-22 (A) the Employees Retirement System of Texas;

2-23 (B) the Teacher Retirement System of Texas;

2-24 (C) The Texas A&M University System; or

2-25 (D) The University of Texas System.

2-26 (4) "Substantive plan" means a plan providing other  
 2-27 postemployment benefits approved by the governing body of the plan  
 2-28 provider according to the laws and constitution of this state.

2-29 Sec. 2264.102. ACCOUNTING FOR OTHER POSTEMPLOYMENT  
 2-30 BENEFITS. To the extent that generally accepted accounting  
 2-31 principles require accounting or reporting of other postemployment  
 2-32 benefits at the government-wide or fund level on any basis other  
 2-33 than pay-as-you-go, this state and its political subdivisions may  
 2-34 account for or report those other postemployment benefits in  
 2-35 accordance with the statutory accounting principles in this  
 2-36 chapter.

2-37 Sec. 2264.103. COMMUNICATION OF STATE SYSTEM'S OBLIGATIONS  
 2-38 TO PROVIDE OTHER POSTEMPLOYMENT BENEFITS. (a) In this section,  
 2-39 "member" means a person to whom a state system provides, or has  
 2-40 promised to provide, other postemployment benefits, including:

2-41 (1) a retiree, annuitant, or employee; or

2-42 (2) a spouse, surviving spouse, or other dependent.

2-43 (b) A state system shall fully disclose to its members that  
 2-44 the system is not obligated to provide benefits beyond existing  
 2-45 statutory, constitutional, or other legal requirements. This  
 2-46 includes requirements that limit the duration for which benefits  
 2-47 are legally obligated such as Section 6, Article VIII, Texas  
 2-48 Constitution, which limits appropriations to two years or less, and  
 2-49 other requirements that limit expenditures to one year or less or  
 2-50 some other term.

2-51 (c) A state system shall inform its members about the extent  
 2-52 of the system's commitments regarding other postemployment  
 2-53 benefits, including whether the other postemployment benefits are  
 2-54 limited by funding obligations or whether the funding obligations  
 2-55 extend throughout the life of the member.

2-56 (d) A state system shall disclose on the entity's website  
 2-57 the information required by this section.

2-58 (e) Other governmental entities of this state or its  
 2-59 political subdivisions may comply with this section.

2-60 Sec. 2264.104. DISCLOSURE OF INFORMATION ON FINANCIAL  
 2-61 STATEMENTS; GENERALLY. This state or a political subdivision of  
 2-62 this state shall disclose in its notes to the financial statement in  
 2-63 a manner consistent with this subchapter:

2-64 (1) other postemployment benefits that it provides in  
 2-65 its substantive plan, including:

2-66 (A) the covered employee groups;

2-67 (B) eligibility requirements; and

2-68 (C) the amount, described in an appropriate  
 2-69 manner, of obligations that it and the member contribute;

3-1 (2) the statutory, contractual, or other authority  
 3-2 under which other postemployment benefits are provided under  
 3-3 Subdivision (1);

3-4 (3) the accounting, financing, and funding policies  
 3-5 that it follows;

3-6 (4) the amount of other postemployment benefits  
 3-7 expenditures that it recognizes during the period, net of member  
 3-8 contributions;

3-9 (5) the number of members currently eligible to  
 3-10 receive other postemployment benefits;

3-11 (6) any significant matters that affect the  
 3-12 comparability of the disclosures required by this section with  
 3-13 those for the previous period; and

3-14 (7) any additional information that it believes will  
 3-15 assist in explaining the nature and cost of its commitment to  
 3-16 provide other postemployment benefits.

3-17 Sec. 2264.105. ADDITIONAL OPTIONAL FINANCIAL DISCLOSURES.

3-18 (a) This state or a political subdivision of this state may  
 3-19 disclose, for informational and planning purposes only and in a  
 3-20 manner consistent with this subchapter, the expense and liability  
 3-21 that would exist if other postemployment benefits had been  
 3-22 guaranteed to members.

3-23 (b) This state or a political subdivision may make this  
 3-24 supplemental disclosure in its other supplemental statistical  
 3-25 information to the financial statements by disclosing:

3-26 (1) its actuarial methods and assumptions or other  
 3-27 estimation methodology;

3-28 (2) its net other postemployment benefits obligation;

3-29 (3) its funding status and funding progress;

3-30 (4) that the supplemental disclosure is for  
 3-31 informational purposes only and is not an obligation or other  
 3-32 promise to provide benefits beyond that approved by its governing  
 3-33 body; and

3-34 (5) any additional information that it believes will  
 3-35 help explain the nature and cost of a potential commitment to  
 3-36 provide other postemployment benefits.

3-37 Sec. 2264.106. COMPTROLLER WEBSITE. (a) The comptroller  
 3-38 shall maintain a website to provide guidance to the state and its  
 3-39 political subdivisions in implementing the requirements and goals  
 3-40 of this subchapter.

3-41 (b) The site must include information that makes the site a  
 3-42 resource tool for the state and its political subdivisions to  
 3-43 consistently manage other postemployment benefits to conform to  
 3-44 statutory, constitutional, and other legal requirements.

3-45 Sec. 2264.107. COMPTROLLER ADVICE AND REPORTING  
 3-46 REQUIREMENTS. (a) The comptroller shall issue reporting  
 3-47 requirements for state retirement systems, including state  
 3-48 systems, to provide guidance on how to comply with accounting  
 3-49 principles in a manner consistent with this subchapter.

3-50 (b) The comptroller shall provide advice to a political  
 3-51 subdivision of this state that requests advice on how to apply  
 3-52 accounting principles in a manner consistent with this subchapter.

3-53 SECTION 3. Section 112.002(c), Local Government Code, is  
 3-54 repealed.

3-55 SECTION 4. (a) The changes in law made by this Act apply to  
 3-56 financial accounting and reporting by a governmental entity subject  
 3-57 to Chapter 2264, Government Code, as added by this Act, beginning  
 3-58 with fiscal year 2007 including the Teacher Retirement System of  
 3-59 Texas, and beginning with fiscal year 2008 for the Employees  
 3-60 Retirement of System of Texas, The Texas A&M University System and  
 3-61 The University of Texas System.

3-62 (b) Not later than December 1, 2007, the Teacher  
 3-63 Retirement System of Texas shall comply with Section 2264.103,  
 3-64 Government Code, as added by this Act. Not later than December 1,  
 3-65 2008, The Employees Retirement of System of Texas, The Texas A&M  
 3-66 University System and The University of Texas System shall comply  
 3-67 with Section 2264.103, Government Code, as added by this Act.

3-68 SECTION 5. This Act takes effect immediately if it receives  
 3-69 a vote of two-thirds of all the members elected to each house, as

4-1 provided by Section 39, Article III, Texas Constitution. If this  
4-2 Act does not receive the vote necessary for immediate effect, this  
4-3 Act takes effect August 27, 2007.

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