

1-1 By: Duncan S.B. No. 1102  
1-2 (In the Senate - Filed March 2, 2007; March 12, 2007, read  
1-3 first time and referred to Committee on State Affairs;  
1-4 April 24, 2007, reported adversely, with favorable Committee  
1-5 Substitute by the following vote: Yeas 8, Nays 0; April 24, 2007,  
1-6 sent to printer.)

1-7 COMMITTEE SUBSTITUTE FOR S.B. No. 1102 By: Duncan

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. (a) This state or a political subdivision  
 2-62 of this state shall disclose in its notes to the financial statement  
 2-63 in 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                   (b) If other postemployment benefits have been  
 3-18 advance-funded on an actuarially determined basis, this state or a  
 3-19 political subdivision of this state shall also disclose in its  
 3-20 notes to the financial statement in a manner consistent with this  
 3-21 subchapter:

3-22                   (1) the actuarial cost method and significant  
 3-23 actuarial assumptions used to determine funding requirements, and  
 3-24 the method used to value plan assets;

3-25                   (2) the number of active plan members;

3-26                   (3) the actuarially required contributions for the  
 3-27 period;

3-28                   (4) the actual contributions net of member  
 3-29 contributions for the period;

3-30                   (5) the amount of net assets available for other  
 3-31 postemployment benefits; and

3-32                   (6) the actuarial accrued liability and unfunded  
 3-33 actuarial accrued liability for other postemployment benefits  
 3-34 according to the actuarial cost method in use.

3-35                   Sec. 2264.105. ADDITIONAL FINANCIAL DISCLOSURE REQUIREMENTS  
 3-36 FOR THE STATE. (a) If this state does not intend for other  
 3-37 postemployment benefits to be guaranteed benefits in future years,  
 3-38 the state shall present the financial statements and schedules in a  
 3-39 manner consistent with this subchapter.

3-40                   (b) If the state intends that other postemployment benefits  
 3-41 be a potential benefit in future years as funding is made available  
 3-42 by the state in accordance with state constitutional and statutory  
 3-43 provisions, this state shall, in a manner consistent with this  
 3-44 subchapter:

3-45                   (1) report its financial statements;

3-46                   (2) disclose its intention in the notes to the  
 3-47 financial statements; and

3-48                   (3) add supplemental information as additional  
 3-49 schedules presenting the government-wide financial statements.

3-50                   (c) The schedules required under Subsection (b)(3) must  
 3-51 disclose, for informational purposes only, the expense and  
 3-52 liability that would exist if other postemployment benefits had  
 3-53 been guaranteed and earned by employees.

3-54                   Sec. 2264.106. ADDITIONAL OPTIONAL FINANCIAL DISCLOSURE  
 3-55 FOR POLITICAL SUBDIVISIONS. (a) A political subdivision of this  
 3-56 state may disclose, for informational and planning purposes only  
 3-57 and in a manner consistent with this subchapter, the expense and  
 3-58 liability that would exist if other postemployment benefits had  
 3-59 been guaranteed to members.

3-60                   (b) The political subdivision may make this supplemental  
 3-61 disclosure in its other supplemental statistical information to the  
 3-62 financial statements by disclosing:

3-63                   (1) its actuarial methods and assumptions or other  
 3-64 estimation methodology;

3-65                   (2) its net other postemployment benefits obligation;

3-66                   (3) its funding status and funding progress;

3-67                   (4) that the supplemental disclosure is for  
 3-68 informational purposes only and is not an obligation or other  
 3-69 promise to provide benefits beyond that approved by its governing

4-1 body; and  
4-2 (5) any additional information that it believes will  
4-3 help explain the nature and cost of a potential commitment to  
4-4 provide other postemployment benefits.

4-5 Sec. 2264.107. COMPTROLLER WEBSITE. (a) The comptroller  
4-6 shall maintain a website to provide guidance to the state and its  
4-7 political subdivisions in implementing the requirements and goals  
4-8 of this subchapter.

4-9 (b) The site must include information that makes the site a  
4-10 resource tool for the state and its political subdivisions to  
4-11 consistently manage other postemployment benefits to conform to  
4-12 statutory, constitutional, and other legal requirements.

4-13 Sec. 2264.108. COMPTROLLER ADVICE AND REPORTING  
4-14 REQUIREMENTS. (a) The comptroller shall issue reporting  
4-15 requirements for state retirement systems, including state  
4-16 systems, to provide guidance on how to comply with accounting  
4-17 principles in a manner consistent with this subchapter.

4-18 (b) The comptroller shall provide advice to a political  
4-19 subdivision of this state that requests advice on how to apply  
4-20 accounting principles in a manner consistent with this subchapter.

4-21 Sec. 2264.109. OTHER POSTEMPLOYMENT BENEFITS TRUST FUND.  
4-22 (a) The comptroller may establish and administer an other  
4-23 postemployment benefits trust fund for state systems to aggregate  
4-24 other postemployment benefits as considered appropriate by the  
4-25 comptroller and the governing bodies of the contributing state  
4-26 systems.

4-27 (b) The comptroller may, subject to the consent of the  
4-28 governing body of the appropriate state system, transfer money to  
4-29 and from a fund of that state system into and out of the trust fund.  
4-30 Funds held in trust by a state system and transferred to the other  
4-31 postemployment benefits trust fund under this section continue to  
4-32 be held in trust for the same persons and purposes.

4-33 (c) The comptroller shall account separately for each state  
4-34 system's contributions, including investment income for the  
4-35 contributions.

4-36 (d) The comptroller may adopt rules to implement this  
4-37 section.

4-38 (e) To the extent of a conflict between this section and  
4-39 another law, this section controls.

4-40 SECTION 3. Subsection (c), Section 112.002, Local  
4-41 Government Code, is amended to read as follows:

4-42 (c) Except as provided by Chapter 2264, Government Code, a  
4-43 [A] regulation adopted under this section may not be inconsistent  
4-44 with generally accepted accounting principles [~~as established by~~  
4-45 ~~the Governmental Accounting Standards Board~~].

4-46 SECTION 4. (a) Except as provided by Subsection (b) of this  
4-47 section, the changes in law made by this Act apply to financial  
4-48 accounting and reporting by a governmental entity subject to  
4-49 Chapter 2264, Government Code, as added by this Act, beginning with  
4-50 fiscal year 2007.

4-51 (b) Not later than December 1, 2007, each state system to  
4-52 which Section 2264.103, Government Code, as added by this Act,  
4-53 applies shall comply with that section.

4-54 SECTION 5. This Act takes effect immediately if it receives  
4-55 a vote of two-thirds of all the members elected to each house, as  
4-56 provided by Section 39, Article III, Texas Constitution. If this  
4-57 Act does not receive the vote necessary for immediate effect, this  
4-58 Act takes effect August 27, 2007.

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