SENATE AMENDMENTS

2nd Printing

By: Truitt, Isett, Eiland, Keffer, Villarreal, et al.

H.B. No. 2365

A BILL TO BE ENTITLED

AN ACT

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

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

SECTION 1. (a) The legislature finds that:

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

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

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

(b) The legislature further finds that:

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

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

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

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

CHAPTER 2264. FINANCIAL ACCOUNTING AND REPORTING

SUBCHAPTER A. GENERAL PROVISIONS

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

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

[Sections 2264.003-2264.050 reserved for expansion]

SUBCHAPTER B. FINANCIAL ACCOUNTING AND REPORTING STANDARDS

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

(1) must be consistent with state financial laws;

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

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

Sec. 2264.052. STATUTORY MODIFIED ACCRUAL BASIS. (a) In this state, a statutory modified accrual basis qualifies as another comprehensive basis of accounting that recognizes revenue when it is measurable and available to finance current expenditures and recognizes expenditures when they are normally expected to be liquidated with current financial resources regardless of when they mature.

(b) This state and its political subdivisions may 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. Compliance with the statutory accounting principles of this chapter by this state or a political subdivision satisfies any other law that requires accounting and reporting according to generally accepted accounting principles, including Section 403.013 or 2101.012.

[Sections 2264.054-2264.100 reserved for expansion]

SUBCHAPTER C. OTHER POSTEMPLOYMENT BENEFITS

Sec. 2264.101. DEFINITIONS. In this subchapter:

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

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

(3) "State system" means:

(A) the Employees Retirement System of Texas;

(B) the Teacher Retirement System of Texas;

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

(D) The University of Texas System.

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

Sec. 2264.102. ACCOUNTING FOR OTHER POSTEMPLOYMENT BENEFITS. 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 other postemployment benefits in accordance with the statutory accounting principles in this chapter.

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

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

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

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

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

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

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

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

(A) the covered employee groups;

(B) eligibility requirements; and

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

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

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

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

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

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

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

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

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

(2) the number of active plan members;

(3) the actuarially required contributions for the period;

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

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

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

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

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

(1) report its basic financial statement;

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

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

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

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

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

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

(2) its net other postemployment benefits obligation;

(3) its funding status and funding progress;

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 4. (a) Except as provided by Subsection (b) of this section, 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.

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

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

ADOPTED

MAY 2 2 2007

Patsy Spaw
Secretary of the Senate

By: Robert Duncan

H.B. No. 2365

Substitute the following for H.B. No. 2365:

By: [signature]

C.S.H.B. No. 2365

A BILL TO BE ENTITLED

AN ACT

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

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

SECTION 1. (a) The legislature finds that:

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

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

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

(b) The legislature further finds that:

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

1

CSSB 1102 committee version revised (pmw)

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

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

CHAPTER 2264. FINANCIAL ACCOUNTING AND REPORTING

SUBCHAPTER A. GENERAL PROVISIONS

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

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

[Sections 2264.003-2264.050 reserved for expansion]

SUBCHAPTER B. FINANCIAL ACCOUNTING AND REPORTING STANDARDS

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

(1) must be consistent with state financial laws;

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

(3) may follow the statutory standards in this

chapter when other accounting bases conflict with state law.

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

(b) This state and its political subdivisions may 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. Compliance with the statutory accounting principles of this chapter by this state or a political subdivision satisfies any other law that requires accounting and reporting according to generally accepted accounting principles, including Section 403.013 or 2101.012.

[Sections 2264.054-2264.100 reserved for expansion]

SUBCHAPTER C. OTHER POSTEMPLOYMENT BENEFITS

Sec. 2264.101. DEFINITIONS. In this subchapter:

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

(2) "Pay-as-you-go" means benefit plan financing generally made at or about the same time and in or about the

same amount as benefit payments and expenditures become due.

(3) "State system" means:

(A) the Employees Retirement System of Texas;

(B) the Teacher Retirement System of Texas;

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

(D) The University of Texas System.

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

Sec. 2264.102. ACCOUNTING FOR OTHER POSTEMPLOYMENT BENEFITS. 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 other postemployment benefits in accordance with the statutory accounting principles in this chapter.

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

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

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

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

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

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

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

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

(A) the covered employee groups;

(B) eligibility requirements; and

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

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

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

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

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

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

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

Sec. 2264.105. ADDITIONAL OPTIONAL FINANCIAL DISCLOSURES. (a) This state or a political subdivision of this state may 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) This state or a political subdivision may make this supplemental disclosure in its other supplemental statistical information to the financial statements by disclosing:

(1) its actuarial methods and assumptions or other

estimation methodology;

(2) its net other postemployment benefits obligation;

(3) its funding status and funding progress;

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

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

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

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

Sec. 2264.107. COMPTROLLER ADVICE AND REPORTING REQUIREMENTS. (a) The comptroller shall issue reporting requirements 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) The comptroller shall provide advice to a political subdivision of this state that requests advice on how to apply accounting principles in a manner consistent with this subchapter.

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

SECTION 4. (a) 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 System of Texas, The Texas A&M University System and The University of Texas System.

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

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

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 18, 2007

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB2365** by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **Committee Report 2nd House, Substituted**

No immediate significant fiscal implication to the State is anticipated.

The bill would allow the state and political subdivisions of the state to follow state statutory modified accrual standards of accounting as described in the bill, if other accounting bases conflict with state law. The state or its political subdivisions could account for other post-employment benefits (OPEBs) on this statutory basis if generally accepted accounting principles (GAAP) require accounting on any basis other than pay-as-you-go.

The bill would have the practical impact of exempting those who choose the alternate accounting from requirements in Governmental Accounting Standards Board (GASB) statement 45, and potentially some in GASB statement 43. GASB 45 requires governmental entities to account for OPEBs, in particular retiree health benefits, in a manner similar to methods used for pension benefits.

The bill partly outlines how the state shall account for OPEBs, and would allow Texas to exempt itself from following GASB standards of accounting for OPEBs. This would result in Texas financial statements no longer following the official GAAP standard, which would lead to adverse opinions by outside auditors. The auditor's opinions would be dual opinions, one opinion expressing compliance with GAAP standards, and another expressing compliance with statutory standards. Differences with GAAP may be small enough to initially get a qualified opinion, though in a short time they would be material and lead to an adverse opinion.

Adverse opinions on Texas financial statements would likely cause concern among bond rating agencies. Also, bond rating agencies have said that if the GASB OPEB estimates are not provided and either funded or managed, it would be a negative rating factor. If the bond rating of Texas were lowered, there would be a significant fiscal impact on the state by increasing the costs of raising funds for construction, capital improvements, and other typical bond usages.

The Teacher Retirement System reports it would save some funds in the near future if it did not have to calculate the GASB liabilities for financial reporting, though the savings would not be significant. On the other hand, calculating those liabilities could provide the state some help in planning for potential future funding of retiree health benefits.

Local Government Impact

No immediate significant fiscal implication to units of local government is anticipated.

The bill's language would allow political subdivisions to report retiree health benefits on a pay-as-you-go basis, or per the methodology proposed by GASB. If they chose to report on a pay-as-you-go basis, they would also have the option of reporting the GASB required information in their footnotes. As per the above analysis, this would mean that for those opting out of GASB reporting, financial statements would receive qualified and/or adverse opinions from outside auditors and their bond ratings could be affected, which would have a significant long-term fiscal impact.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 352 Bond Review Board

LBB Staff: JOB, KJG, SD, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 16, 2007

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB2365** by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **As Engrossed**

No immediate significant fiscal implication to the State is anticipated.

The bill would allow the state and political subdivisions of the state to follow state statutory modified accrual standards of accounting as described in the bill, if other accounting bases conflict with state law. The state or its political subdivisions could account for other post-employment benefits on this statutory basis if generally accepted accounting principles (GAAP) require accounting on any basis other than pay-as-you-go.

The bill would have the practical impact of exempting those who choose the alternate accounting from the Governmental Accounting Standards Board (GASB) statements 43 and 45. These statements require governmental entities to account for other post-employment benefits (OPEBs), in particular retiree health benefits, in a manner similar to methods used for pension benefits.

The bill details how the state shall account for OPEBs; if they are not advance-funded then only pay-as-you-go accounting is allowed; if they are advance-funded then certain actuarial accounting amounts shall be disclosed, though these amounts are not clearly tied to the amounts required by GASB. The bill states that if the state intends OPEBs to be a benefit in future years, then it shall file a supplemental schedule presenting government-wide financial statements with some accounting for OPEBs. There is no suggested method as to how the determination of the state's intent to provide benefits would be made, or by whom.

The bill potentially prevents Texas from following GASB standards of accounting for OPEBs, though under certain conditions at least some of the GASB information may be available. Then Texas financial statements would no longer follow the official GAAP standard, which would lead to adverse opinions by outside auditors. The auditor's opinions would be dual opinions, one opinion expressing compliance with GAAP standards, and another expressing compliance with statutory standards. Differences with GAAP may be small enough to initially get a qualified opinion, though in a short time they would be material and lead to an adverse opinion.

Adverse opinions on Texas financial statements would likely cause concern among bond rating agencies. Also, bond rating agencies have said that if the GASB OPEB estimates are not provided and either funded or managed, it would be a negative rating factor. If the bond rating of Texas were lowered, there would be a significant fiscal impact on the state by increasing the costs of raising funds for construction, capital improvements, and other typical bond usages.

The bill would allow the Comptroller to establish an OPEB trust fund for state, higher education, and public education employees. This would be a revocable trust fund, with no employee or retirement system oversight, and could be dissolved at any time for any purpose, though funds transferred from another trust fund would remain in trust. Hence it would not qualify as a GASB trust fund, and it is unclear how it would be treated by the bond rating agencies.

The Teacher Retirement System reports it would save some funds in the near future if it did not have to calculate the GASB liabilities for financial reporting, though the savings would not be significant. On the other hand, calculating those liabilities could provide the state some help in planning for potential future funding of retiree health benefits. If the state advance-funded some liabilities, then any discrepancy between the actuarial amounts mentioned in the bill and GASB amounts may require all the systems to calculate both at additional cost.

Local Government Impact

No immediate significant fiscal implication to units of local government is anticipated.

The bill's language would allow political subdivisions to report retiree health benefits on a pay-as-you-go basis, or per the methodology proposed by GASB. If they chose to report on a pay-as-you-go basis, they would also have the option of reporting the GASB required information in their footnotes. As per the above analysis, this would mean for those opting out of GASB reporting, financial statements would receive qualified and/or adverse opinions from outside auditors and their bond ratings could be affected, which would have a significant long-term fiscal impact.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 352 Bond Review Board

LBB Staff: JOB, KJG, SD, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 17, 2007

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB2365 by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **Committee Report 1st House, Substituted**

No immediate significant fiscal implication to the State is anticipated.

The bill would allow the state and political subdivisions of the state to follow state statutory modified accrual standards of accounting as described in the bill, if other accounting bases conflict with state law. The state or its political subdivisions could account for other post-employment benefits on this statutory basis if generally accepted accounting principles (GAAP) require accounting on any basis other than pay-as-you-go.

The bill would have the practical impact of exempting those who choose the alternate accounting from the Governmental Accounting Standards Board (GASB) statements 43 and 45. These statements require governmental entities to account for other post-employment benefits (OPEBs), in particular retiree health benefits, in a manner similar to methods used for pension benefits.

The bill details how the state shall account for OPEBs; if they are not advance-funded then only pay-as-you-go accounting is allowed; if they are advance-funded then certain actuarial accounting amounts shall be disclosed, though these amounts are not clearly tied to the amounts required by GASB. The bill states that if the state intends OPEBs to be a benefit in future years, then it shall file a supplemental schedule presenting government-wide financial statements with some accounting for OPEBs. There is no suggested method as to how the determination of the state's intent to provide benefits would be made, or by whom.

The bill potentially prevents Texas from following GASB standards of accounting for OPEBs, though under certain conditions at least some of the GASB information may be available. Then Texas financial statements would no longer follow the official GAAP standard, which would lead to adverse opinions by outside auditors. The auditor's opinions would be dual opinions, one opinion expressing compliance with GAAP standards, and another expressing compliance with statutory standards. Differences with GAAP may be small enough to initially get a qualified opinion, though in a short time they would be material and lead to an adverse opinion.

Adverse opinions on Texas financial statements would likely cause concern among bond rating agencies. Also, bond rating agencies have said that if the GASB OPEB estimates are not provided and either funded or managed, it would be a negative rating factor. If the bond rating of Texas were lowered, there would be a significant fiscal impact on the state by increasing the costs of raising funds for construction, capital improvements, and other typical bond usages.

The bill would allow the Comptroller to establish an OPEB trust fund for state, higher education, and public education employees. This would be a revocable trust fund, with no employee or retirement system oversight, and could be dissolved at any time for any purpose, though funds transferred from another trust fund would remain in trust. Hence it would not qualify as a GASB trust fund, and it is unclear how it would be treated by the bond rating agencies.

The Teacher Retirement System reports it would save some funds in the near future if it did not have to calculate the GASB liabilities for financial reporting, though the savings would not be significant. On the other hand, calculating those liabilities could provide the state some help in planning for potential future funding of retiree health benefits. If the state advance-funded some liabilities, then any discrepancy between the actuarial amounts mentioned in the bill and GASB amounts may require all the systems to calculate both at additional cost.

Local Government Impact

No immediate significant fiscal implication to units of local government is anticipated.

The bill's language would allow political subdivisions to report retiree health benefits on a pay-as-you-go basis, or per the methodology proposed by GASB. If they chose to report on a pay-as-you-go basis, they would also have the option of reporting the GASB required information in their footnotes. As per the above analysis, this would mean for those opting out of GASB reporting, financial statements would receive qualified and/or adverse opinions from outside auditors and their bond ratings could be affected, which would have a significant long-term fiscal impact.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 352 Bond Review Board

LBB Staff: JOB, KJG, SD, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 23, 2007

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB2365** by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **As Introduced**

No immediate significant fiscal implication to the State is anticipated.

The bill would require the state and political subdivisions of the state to follow state statutory standards of accounting as described in the bill. It describes a statutory modified accrual accounting basis, and states that any accounting requirements for other postemployment benefits at the government-wide or fund level on any basis other than pay-as-you-go do not apply to the state or its political subdivisions.

The bill would have the practical impact of exempting Texas from the Governmental Accounting Standards Board (GASB) statements 43 and 45. These statements require governmental entities to account for other postemployment benefits (OPEBs), in particular retiree health benefits, in a manner similar to methods used for pension benefits. Not following GASB standards would have the effect of making Texas financial statements no longer follow the official standard of Generally Accepted Accounting Principles, which would likely lead to adverse opinions by outside auditors. Adverse opinions on Texas financial statements would likely cause concern among bond rating agencies. Additionally, bond rating agencies have said that if the GASB OPEB estimates were not provided, it either could or would be a significant negative factor in their bond rating of Texas. If the bond rating of Texas were lowered, there would be a significant fiscal impact on the state by increasing the costs of raising funds for construction, capital improvements, and other typical bond usages.

The Teacher Retirement System reports it would save some funds in the near future by not having to calculate the GASB liabilities for financial reporting, though the savings would not be significant. On the other hand, calculating those liabilities could provide the state some help in planning for potential future funding of retiree health benefits.

Local Government Impact

No immediate significant fiscal implication to units of local government is anticipated.

The bill's language would prohibit any political subdivision from accounting for OPEBs per the methodology proposed by GASB. As per the above analysis, this would mean their financial statements would receive adverse opinions from outside auditors and their bond ratings could be affected, which would have a significant long-term fiscal impact.

Some local governments have said they would want to provide the GASB OPEB liability estimates and this bill would require them to perform additional analyses to account for the state requirements as well.

Montgomery County reported that implementing the provisions of the bill would require them to hire an actuary to determine future liability at an initial cost of $50,000 in fiscal year 2008 and in every even-numbered fiscal year afterwards.

The city of Carrollton reported costs from $0 to $530,000, depending on interpretations of the provisions of the bill.

The city of Sherman reported costs of $19,740 in fiscal year 2008 for new staff and additional audit fees. These costs would rise to $24,475 by fiscal year 2012. The additional auditing fees could rise if the city is required to have two sets of audited books, one that meets state requirements and one that meets national requirements.

The cities of Houston and Waco and the counties of Denton and El Paso reported that implementing the provisions of the bill would have no fiscal impact on their budgets.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 352 Bond Review Board

LBB Staff: JOB, KJG, SD, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

80TH LEGISLATIVE REGULAR SESSION

May 18, 2007

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB2365 by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **Committee Report 2nd House, Substituted**

CSHB 2365 would create Chapter 2264 of Subtitle F, Title 10, Government Code to provide guidelines for financial accounting and reporting standards. The bill sets requirements under the chapter regarding the accounting and reporting of financial activities for the state and its political subdivisions. The language permits the state and its political subdivisions to account for other postemployment benefits (OPEBs) on a pay-as-you-go basis. The Governmental Accounting Standards Board has issued Statements 43 and 45 creating accounting standards for OPEBs, including retiree health. It would require pension systems and their governmental sponsors to disclose both prior service liabilities, and an ongoing net OPEB obligation reflecting liability for any funding shortfalls. The reporting of OPEBs under the provisions of the bill is permitted to follow either a pay-as-you go basis or the GASB reporting standards.

The bill would require the Employees Retirement System (ERS), the Teacher Retirement System (TRS), the Texas A&M University System and the University of Texas System to communicate to its members the extent of the system's commitments regarding OPEBs. Also, certain disclosures about OPEBs would be required in financial reports of the state and its political subdivisions and the governmental entity would disclose the accounting, financing and funding policy used to report OPEBs.

The proposed legislation could affect the statement of liabilities for every public retirement system which has a government sponsor that also provides retiree health benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JOB, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

80TH LEGISLATIVE REGULAR SESSION

May 16, 2007

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB2365** by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **As Engrossed**

CSHB 2365 would create Chapter 2264 of Subtitle F, Title 10, Government Code to provide guidelines for financial accounting and reporting standards. The bill sets requirements under the chapter regarding the accounting and reporting of financial activities for the state and its political subdivisions. The language permits the state and its political subdivisions to account for other postemployment benefits (OPEBs) on a pay-as-you-go basis. The Governmental Accounting Standards Board has issued Statements 43 and 45 creating accounting standards for OPEBs, including retiree health. It would require pension systems and their governmental sponsors to disclose both prior service liabilities, and an ongoing net OPEB obligation reflecting liability for any funding shortfalls. The reporting of OPEBs for local entities under the provisions of the bill is permitted to follow either a pay-as-you go basis or the GASB reporting standards.

The bill would require the Employees Retirement System (ERS), the Teacher Retirement System (TRS), the Texas A&M University System and the University of Texas System to communicate to its members the extent of the system's commitments regarding OPEBs. Also, the disclosure of OPEBs in financial reports of the state and its political subdivisions would be required and the governmental entity would disclose the accounting, financing and funding policy used to report OPEBs. The state would be further required to disclose, in its financial statements, whether it intends to provide guaranteed OPEBs in future years or not.

The proposed legislation could affect the statement of liabilities for every public retirement system which has a government sponsor that also provides retiree health benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JOB, KJG, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

80TH LEGISLATIVE REGULAR SESSION

April 16, 2007

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB2365 by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **Committee Report 1st House, Substituted**

CSHB 2365 would create Chapter 2264 of Subtitle F, Title 10, Government Code to provide guidelines for financial accounting and reporting standards. The bill sets requirements under the chapter regarding the accounting and reporting of financial activities for the state and its political subdivisions. The language permits the state and its political subdivisions to account for other postemployment benefits (OPEBs) on a pay-as-you-go basis. The Governmental Accounting Standards Board has issued Statements 43 and 45 creating accounting standards for OPEBs, including retiree health. It would require pension systems and their governmental sponsors to disclose both prior service liabilities, and an ongoing net OPEB obligation reflecting liability for any funding shortfalls. The reporting of OPEBs for local entities under the provisions of the bill is permitted to follow either a pay-as-you go basis or the GASB reporting standards.

The bill would require the Employees Retirement System (ERS), the Teacher Retirement System (TRS), the Texas A&M University System and the University of Texas System to communicate to its members the extent of the system's commitments regarding OPEBs. Also, the disclosure of OPEBs in financial reports of the state and its political subdivisions would be required and the governmental entity would disclose the accounting, financing and funding policy used to report OPEBs. The state would be further required to disclose, in its financial statements, whether it intends to provide guaranteed OPEBs in future years or not.

The proposed legislation could affect the statement of liabilities for every public retirement system which has a government sponsor that also provides retiree health benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JOB, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

80TH LEGISLATIVE REGULAR SESSION

March 27, 2007

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB2365 by Truitt (Relating to financial accounting and reporting for this state and political subdivisions of this state.), **As Introduced**

The bill would require the state and political subdivisions of the state to follow state statutory standards of accounting as described in the bill, and adds that any accounting requirements for other postemployment benefits at the government-wide or fund level on any basis other than pay-as-you-go would not apply to the state or its political subdivisions.

The Governmental Accounting Standards Board has issued Statements 43 and 45 creating accounting standards for other postemployment benefits (OPEBs), including retiree health. It would require pension systems and their governmental sponsors to disclose both prior service liabilities, and an ongoing net OPEB obligation reflecting liability for any funding shortfalls. The bill would not allow any governmental plan sponsors to report these liabilities as per GASB standards.

Actuarial impact statements are required for any legislation that proposes to change a fund liability of a public retirement system. The proposed legislation would affect the statement of liabilities for every public retirement system which has a government sponsor that also provides retiree health benefits, and allow all to implicitly state there is no liability.

Source Agencies: 338 Pension Review Board
LBB Staff: JOB, WM