

**House Bill 2365**  
Senate Amendments  
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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

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CHAPTER 2264. FINANCIAL ACCOUNTING AND

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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

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REPORTING

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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;

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(D) The University of Texas System.

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(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.

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(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

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(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

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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.

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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.

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(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;

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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;

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(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

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(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

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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.

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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

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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

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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.

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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.

Same as House version.

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