SUBJECT: Requiring state and local financial reports to follow GASB standards

COMMITTEE: Government Transparency and Operation — favorable, without amendment

VOTE: 7 ayes — Elkins, Capriglione, Gonzales, Lucio, Shaheen, Tinderholt, Uresti

0 nays

WITNESSES: For — Gary D. McIntosh and John Sharbaugh, Texas Society of CPAs

Against — None

BACKGROUND: The Governmental Accounting Standards Board (GASB), an independent private-sector organization, sets accounting and financial reporting guidelines for state and local governments. GASB standards, or generally accepted accounting principles (GAAP), must be followed for an audit to report a "clean" opinion.

GASB Statement No. 45 establishes standards for reporting costs related to "other postemployment benefits" (OPEB), which do not include pensions. These standards require governments to report the future cost of providing OPEB, such as retiree health insurance benefits, as an expense during the years that the employees perform services in exchange for these benefits, rather than reporting the financial effects of OPEB when the benefits are paid (i.e., on a "pay-as-you-go" basis).

Following GASB's adoption of Statement No. 45, the 80th Legislature in 2007 enacted HB 2365 by Truitt, which established Government Code, ch. 2266. Under ch. 2266, to the extent that generally accepted accounting principles require accounting or reporting of OPEB on any basis other than pay-as-you-go, the state and local governments may account for or report those benefits according to principles provided by that chapter.

DIGEST: HB 1930 would repeal Government Code, ch. 2266.

The bill also would prohibit the auditor of a county with a population of at least 190,000 from adopting a regulation inconsistent with generally accepted accounting principles established by the Governmental Accounting Standards Board.

The bill would take effect September 1, 2017, and would apply beginning with an applicable governmental entity's first fiscal year that started on or after September 1, 2018.

SUPPORTERS SAY:

HB 1930 would remove the option for the state and local governments to report financial information related to certain retiree benefits on a "pay-as-you-go" basis rather than following Governmental Accounting Standards Board (GASB) standards by reporting future obligations. This option allows governments to not disclose these benefits as liabilities, misrepresenting government obligations.

This bill would increase government transparency and safeguard investments. Adherence to generally accepted accounting principles (GAAP) would ensure that financial statements were reliable, consistent, and easy for the public and investors to understand.

Retiree health insurance benefits may be difficult to estimate, but citizens and public employees deserve to be aware of the general financial health of their government. If a government entity were to change these benefits in the future, its financial reporting at that time would change accordingly.

Other providers of retiree benefits, such as social security and Medicaid, routinely project the long-term costs of their programs. Any long-term promise to pay should be accompanied by an attempt to estimate the value of that benefit.

Certified public accountants already are obligated to follow GAAP to ensure they receive a "clean" opinion on an audit. Texas is the only state that allows an exemption from GAAP, and the state auditor has declined to use this exemption. Additionally, only one local government currently uses this option.

OPPONENTS SAY:

HB 1930 would repeal an important exemption to GASB standards ensuring that certain postemployment benefits are not listed as liabilities in financial reports. Because local governments are not required to provide health care to retirees, those that do can change or eliminate these benefits at any time, which makes future cost projections impossible to estimate. Requiring local governments to attempt to calculate future obligations with current policy rates could lead to deceptive balance sheets.

OTHER OPPONENTS SAY:

While HB 1930 appropriately would close the loophole allowing governments to not report future OPEB costs, the bill would remove flexibility for local governments. Requiring counties to adhere to GASB standards for all financial reporting would leave them open to increased costs. Some counties could not afford to update their accounting and financial reporting practices if GASB standards suddenly changed.

NOTES:

A companion bill, SB 753 by Perry, was passed by the Senate and reported engrossed on April 19.