

**BILL ANALYSIS**

Senate Research Center  
80R9368 MXM-F

S.B. 1102  
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State Affairs  
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As Filed

**AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

The Government Accounting Standards Board (GASB) Statement 45 establishes a method of measurement that requires the estimation of future cash flows for medical benefits 30 to 50 years in the future. In order to offset the liability, governments must pre-fund potential cash expenditures through an irrevocable trust. If not pre-funded, the financial statement must show an increasing liability each year the annually required contribution is not met in its entirety. If the projections overestimate the amount, any excess funds could not be retrieved from the trust. The GASB 45's broad definition for a post-employment benefit plan and the inability to accurately project medical costs over an employee lifetime conflicts with state law. The Generally Accepted Accounting Principles (GAAP) adopted by GASB is a voluntary basis of accounting for governments. If the state or local government chooses not to follow GASB, it must have another recognized basis of accounting so its financial statements can be audited.

Currently, there is no state accounting code in Texas. Some statutes reference GAAP as an accounting standard to be used in developing internal accounting rules, the state computer accounting system, and certain reports to other positions in government. The current constitutional requirements for the creation of an obligation limits the persons that can obligate the government and prescribes how debt is created.

As proposed, S.B. 1102 corrects a nationally developed, voluntary accounting standard that is in conflict with Texas law. GASB Statement 45 would require governments to report post employment benefits on the financial statement as an obligation, whether or not the government has promised a benefit or is legally obligated to provide the benefit. In addition, this bill creates another comprehensive basis of accounting for Texas. The new accounting standard codifies the current accounting standards in use by Texas governments, including the reporting of post-employment benefits by appropriated expenditure rather than by projected future cash flows for possible post-employment benefits.

**RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

**SECTION BY SECTION ANALYSIS**

SECTION 1. Sets forth the legislative findings relating to financial accounting and reporting for this state and political subdivisions of this state.

SECTION 2. Amends Subtitle F, Title 10, Government Code, by adding Chapter 2264, as follows:

CHAPTER 2264. FINANCIAL ACCOUNTING AND REPORTING

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2264.001. APPLICABILITY. Provides that this chapter applies to this state and to each political subdivision thereof.

Sec. 2264.002. APPLICABILITY TO COMPONENT UNITS. Provides that the statutory accounting principles and reporting standards in this chapter apply to an entity to the

extent that it is reported in the financial statement of the state or a political subdivision as a component unit.

[Reserves Sections 2264.003-2264.050 for expansion.]

#### SUBCHAPTER B. FINANCIAL ACCOUNTING AND REPORTING STANDARDS

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

Sec. 2264.052. STATUTORY MODIFIED ACCRUAL BASIS. (a) Defines a statutory modified accrual basis.

(b) Authorizes this state and its political subdivisions to 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. Provides that compliance with the statutory accounting principles of this chapter by the state or a political subdivision thereof satisfies another statute that requires accounting and reporting according to generally accepted accounting principles.

Sec. 2264.054. ACCOUNTING FOR OTHER POSTEMPLOYMENT BENEFITS. (a) Defines "other postemployment benefits" and "pay-as-you-go."

(b) Provides that 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 and in accordance with the statutory accounting principles in this chapter, those accounting or reporting requirements do not apply to this state or its political subdivisions.

SECTION 3. Amends Section 112.002(c), Local Government Code, to prohibit a regulation under this section (Accounting System in County with County Auditor and Population of 190,000 or More) from being inconsistent with generally accepted accounting principles, except as provided by Chapter 2264, Government Code. Deletes existing text relating to accounting principles established by the Governmental Accounting Standards Board.

SECTION 4. Makes application of this Act prospective.

SECTION 5. Effective date: upon passage or September 1, 2007.