

BILL ANALYSIS

Senate Research Center
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S.B. 753
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State Affairs
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As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

S.B. 753 repeals Chapter 2266, Government Code, relating to the acceptable financial accounting and reporting standards for local governmental entities. Chapter 2266, Government Code, allows governmental entities to deviate from generally accepted accounting principles (GAAP) in reporting limited/other post-employment benefits.

In 2004, the Governmental Accounting Standards Board released Statement 45 (GASB 45) with an effective implementation date of fiscal years 2007/2008. This statement addressed the financial reporting requirements for other post-employment benefits (OPEB). GASB 45 requires that OPEB be measured and disclosed using an economic resources measurement focus, rather than a current financial resource outflows (i.e., pay-as-you-go) approach. GASB 45 is based on the concept that post-employment benefit transactions are an exchange of promised benefits for employee services. Under this concept, the benefits, which are deferred until retirement or another future event, are to be recognized in the years during which the employer receives services, rather than during the post-employment period when payments are made. This requires disclosure about actuarially accrued liabilities related to past services and the status and progress of funding the benefits.

In 2007 the Texas Legislature passed H.B. 2365, which added Chapter 2266 to the Government Code governing financial accounting and reporting for the state and its political subdivisions.

Chapter 2266 allows state and local governments to "opt out" of complying with GAAP as it relates to post-employment benefits. Proponents of the legislation argue that the state and local governments are not obligated to fund post-retirement benefits and therefore should not have to book them as liabilities on their financial statements. They also argue that these benefits could be changed or eliminated at any time, and therefore, making projections of future obligations was not possible or legally required.

The Texas Society of Certified Public Accountants (CPAs) opposed this effort in 2007, arguing that it was not in the public interest to allow accounting methods other than GAAP and that adhering to GAAP provides greater transparency as to the future obligations for benefits. Texas Society of CPAs also pointed out that CPAs would have to issue qualified opinions on audited financial statements that were not in accordance with GAAP.

After the passage of H.B. 2365 in 2007, the state auditor made it known they would not issue an audit report if Texas did not adhere to GAAP. Many local governments were advised by their auditors that they could not issue a "clean" opinion if GAAP was not followed. As a result, neither the State of Texas nor many local governments are availing themselves of this "opt out" under Chapter 2266, Government Code.

Only one governmental entity in the state currently uses this option. Texas is the only state in the country that provides governmental entities an "opt out" of following GAAP with respect to post-employment benefits.

S.B. 753 repeals Chapter 2266 and updates modern fiscal policy to be more efficient and transparent.

As proposed, S.B. 753 amends current law relating to financial accounting and reporting requirements for this state and political subdivisions of this state.

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. Repealer: Chapter 2266 (Financial Accounting and Reporting), Government Code.

SECTION 2. Amends Section 112.002, Local Government Code, by adding Subsection (c), to prohibit a regulation adopted under this section from being inconsistent with generally accepted accounting principles as established by the Governmental Accounting Standards Board.

SECTION 3. Provides that the changes in law made by this Act apply to financial accounting and reporting by a governmental entity that, immediately before the effective date of this Act, was subject to Chapter 2266, Government Code, as repealed by this Act, beginning with the governmental entity's first fiscal year that begins on or after September 1, 2018.

SECTION 4. Effective date: upon passage or September 1, 2017.