
SENATE COMMITTEE ON GOVERNANCE AND FINANCE

Senator Mike McGuire, Chair

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Bill No: SB 742
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Tax Levy: No
Fiscal: No

CITY TREASURERS

Requires city treasurers to adhere to generally accepted accounting principles if their city issues bonds.

Background

State law establishes a city treasurer as an officer in each general law city. City treasurers are elected by default, but general law cities can make the city treasurer an appointed position upon approval by voters. Charter cities may provide for a different structure, as specified by their charter. The city treasurer is charged with the collection, disbursement, safekeeping, and accounting of city funds and must comply with all laws governing the deposit, securing, and handling of those funds. Each month, the city treasurer must submit an accounting of all receipts, disbursements, and fund balances to the city clerk and the city council, along with a written report.

Since the 1940s, local agencies have been required to file annual financial transaction reports with the State Controller's Office. These reports document local agencies' revenues, expenditures, long-term indebtedness, appropriation limits, and total annual appropriations subject to those limits. The Controller is required to prepare and publish annual reports on the financial transactions of cities, counties, and special districts, along with any other information deemed to be of public interest (SB 1138 Fletcher, 1945).

Accounting practices vary across governmental entities in California. The Governmental Accounting Standards Board, a national nonprofit organization, develops standards for preparing financial statements and other financial reporting that local governments can choose to follow, known as generally accepted accounting principles (GAAP). The GAAP establish uniform minimum standards and practices for financial accounting and reporting, such as the financial data should be tallied and disclosed in a financial statement and the manner in which that data is compiled and presented. Because they follow these standards, GAAP provide the public, elected officials, investors, and creditors with confidence that government's financial accounting is being performed accurately and correctly. As a result, government agencies that follow GAAP can see lower interest rates when they borrow money.

California does not uniformly require GAAP for all local governments. The State Controller's Office sets uniform accounting procedures that must conform to GAAP, but these accounting procedures only apply to counties and special districts, not cities. The financial reports that local governments must file with the Controller must contain underlying data from audited financial statements prepared in accordance with GAAP, if this data is available.

More than three-quarters of the cities in the state had issued bonds as of the end of 2015. The author wants city treasurers in cities that issue bonds to comply with GAAP.

Proposed Law

Senate Bill 742 requires a city treasurer to use a system of auditing and accounting that adheres to generally accepted accounting principles, if that city has issued bonds.

State Revenue Impact

No estimate.

Comments

1. Purpose of the bill. As the finances of government agencies have gotten more complex, standards for accounting procedures have evolved as well. The current best practice for local agencies is to conform to GAAP, and state law already requires counties and special districts to meet these standards by following the uniform accounting procedures established by the State Controller. However, cities are not currently subject to these requirements. Although many cities voluntarily conform to GAAP, some do not. As a result, they can face consequences such as higher borrowing costs and lower public confidence in their finances. SB 742 closes this gap by requiring city treasurers to conform to GAAP if they issue bonds. This is already a best practice; SB 742 ensures that these practices are uniformly adopted by cities across the state.

2. Time for an update? The statutes that govern city treasurer duties have not been updated in any manner since 1949. SB 742 modifies one of the seven provisions of law outlining city treasurer duties to reflect the modern consensus on how to properly keep a city's books, but it leaves the others unchanged. For example, current law requires the city treasurer to submit to the city clerk and the city council a written report and accounting of all receipts, disbursements, and fund balances. This requirement may be outdated given the technology available to local governments for electronic transmittal of records. But these laws are still on the books. It may be time to revisit these statutes more comprehensively.

Support and Opposition (4/13/17)

Support: State Treasurer's Office.

Opposition: Unknown.

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