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CONSENT

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Bill No: SB 742  
Author: Moorlach (R)  
Introduced: 2/17/17  
Vote: 21

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SENATE GOVERNANCE & FIN. COMMITTEE: 7-0, 4/19/17  
AYES: McGuire, Nguyen, Beall, Hernandez, Hertzberg, Lara, Moorlach

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**SUBJECT:** City treasurers

**SOURCE:** Author

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**DIGEST:** This bill requires city treasurers to adhere to generally accepted accounting principles if their city issues bonds.

**ANALYSIS:**

Existing law:

- 1) Establishes a city treasurer as an officer in each general law city, charged with the collection, disbursement, safekeeping, and accounting of city funds.
- 2) Requires local agencies file annual financial transaction reports with the State Controller's Office that document their revenues, expenditures, long-term indebtedness, appropriation limits, and total annual appropriations subject to those limits.
- 3) Requires the State Controller 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.
- 4) Directs the State Controller to develop accounting standards for counties and special districts.

This bill requires a city treasurer to use a system of auditing and accounting that adheres to generally accepted accounting principles (GAAP), if that city has issued bonds.

## **Background**

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. 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. 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.

## **Comments**

*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.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: No Local: No

**SUPPORT:** (Verified 4/21/17)

State Treasurer's Office  
League of California Cities

**OPPOSITION:** (Verified 4/21/17)

None received

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4/21/17 12:50:37

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