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# California State Senate



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RETIREMENT

SENATOR  
**JOHN M. W. MOORLACH**  
THIRTY-SEVENTH SENATE DISTRICT

## FACT SHEET

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### Senate Bill 742- Transparency in City Accounting

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#### **BILL SUMMARY**

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Senate Bill 742 would require cities that issue bonds to comply with the Generally Accepted Accounting Principles (GAAP) used by governmental entities.

#### **ISSUE BACKGROUND**

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GAAP is recognized as the standard method for financial accounting. Under current California Government Code, there is no requirement for cities to follow GAAP in their financial reporting. In the absence of this requirement, cities may be permitted to adopt an alternative method of accounting, and many have. This lack of uniformity in accounting methods can cause confusion when evaluating or comparing cities. Additionally, since cities can change their accounting methods, financial information may be inconsistent and therefore less transparent to the public.

Furthermore, standards were recently updated to require the reporting of public pension obligations in financial reports. Many cities throughout California have large unfunded pension liabilities and should report those obligations in the consistent and transparent manner that GAAP standards require. Full knowledge of all debts and liabilities is imperative to making an informed choice on whether or not to purchase city bonds.

Without the requirement to follow GAAP, cities may fail to disclose future pension obligations, leaving investors with the potential for a highly inaccurate understanding of the city's financial situation.

Senate Bill 742 would provide investors and the public with this necessary transparency and consistency in cities' financial records.

#### **SUPPORT**

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- John Chiang, California State Treasurer
- Howard Jarvis Taxpayers Association
- League of California Cities

#### **OPPOSITION**

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- None on file

#### **CONTACT**

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