

Date of Hearing: June 14, 2017

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
SB 742 (Moorlach) – As Introduced February 17, 2017

SENATE VOTE: 36-0

SUBJECT: City treasurers.

SUMMARY: Requires the city treasurer, if the city has issued bonds, to use a system of accounting and auditing that adheres to generally accepted accounting principles. Specifically, **this bill:**

- 1) Requires the city treasurer, if the city has issued bonds, to use a system of accounting and auditing that adheres to generally accepted accounting principles.
- 2) Replaces the terms "he" and "his" with "his or her" and "the treasurer".

EXISTING LAW:

- 1) Requires the city treasurer to do the following:
 - a) Receive and safely keep all money coming into the hands of the treasurer;
 - b) Comply with all laws governing the deposit and securing of public funds and the handling of trust funds in their possession;
 - c) Pay out money only on warrants signed by legally designated persons;
 - d) Submit, at least once each month, to the city clerk a written report and accounting of all receipts, disbursements, and fund balances, and file a copy with the legislative body; and,
 - e) Perform duties relative to the collection of city taxes and license fees.
- 2) Authorizes the city treasurer to appoint deputies, as specified.

FISCAL EFFECT: None

COMMENTS:

- 1) **Background and Bill Summary.** The Governmental Accounting Standards Board, a national nonprofit organization, develops standards for preparing financial statements and other financial reporting that local governments may follow, known as generally accepted accounting principles (GAAP). The GAAP establishes uniform minimum standards and practices for financial accounting and reporting, such as the financial data that should be tallied and disclosed in a financial statement and the manner in which that data is compiled and presented.

California does not uniformly require GAAP for all local governments. The State Controller's Office establishes uniform accounting procedures that must conform to GAAP,

but these accounting procedures only apply to counties and special districts, not cities. Existing law requires annual financial reports that local governments file with the Controller to contain underlying data from audited financial statements prepared in accordance with GAAP, if this data is available.

This bill requires the city treasurer, if the city has issued bonds, to use a system of accounting and auditing that adheres to GAAP. This bill is author-sponsored.

- 2) **Author's Statement.** According to the author, "...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."
- 3) **Policy Consideration and Committee Amendments.** The statutes which govern the duties of a city treasurer have not been updated since 1949. The Committee may wish to consider, beyond the scope of this bill, if these statutes should be modernized to more closely reflect the duties of a city treasurer and to recognize that changes in technology alone warrant an examination of these statutes. Additionally, the Committee might wish to note that the pronouns "he" and "his" are used in reference to a city treasurer in several sections of existing law surrounding the provision amended by this bill.

The Committee may wish to ask the author to accept amendments to strike references to "he" and "his" referring to a city treasurer in Government Code Sections 41001 through 41007.

- 4) **Arguments in Support.** California State Treasurer, John Chiang states, "This requirement would provide investors and the public with necessary transparency and consistency in cities' financial records. Under current California Government Code, there is no requirement for cities to follow GAAP. In absence of requirements to comply with GAAP, cities may be permitted to adopt an alternative method of accounting. 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."
- 5) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

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

Opposition

None on File