

Date of Hearing: June 19, 2019

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
SB 598 (Moorlach) – As Amended May 17, 2019

SENATE VOTE: 38-0

SUBJECT: Open Financial Statements Act.

SUMMARY: Creates the Open Financial Statement Commission (Commission) and requires it to report to the Legislature regarding how to transition state and local agencies' financial reporting to a machine readable format. Specifically, **this bill:**

- 1) Creates the Open Financial Statements Act and establishes the Commission in the State Treasurer's Office (STO).
- 2) Requires the Commission to consist of the following nine members:
 - a) A representative from the State Controller's Office (SCO), to be appointed by the Controller;
 - b) A representative from the California Debt and Investment Advisory Commission (CDIAC) within the STO, who shall serve as the chair of the Commission;
 - c) A representative from the State Auditor's Office, to be appointed by the California State Auditor;
 - d) A representative of a city or a county;
 - e) A representative of a special district;
 - f) A researcher who has knowledge and experience in government accounting, affiliated with either the University of California (UC) or the California State University (CSU);
 - g) A municipal bond investor;
 - h) An information technology professional employed in the private sector; and,
 - i) A person with knowledge and experience in data modeling for open data standards.
- 3) Requires Commission members to be appointed by the Treasurer, except for the representatives from the SCO and the State Auditor's Office.
- 4) Specifies that Commission meetings shall be open and public in accordance with the Bagley-Keene Open Meeting Act.
- 5) Allows the Commission to employ staff as may be necessary for the performance of its duties.

- 6) Allows the Commission to contract, through an open and competitive request for proposal (RFP) and consistent with existing law governing the acquisition of information technology (IT) goods and services by state agencies, with vendors possessing the necessary software and financial data standards development expertise to do both of the following:
 - a) Build one or more taxonomies suitable for public agency filings, including, but not limited to, XBRL taxonomies; and,
 - b) Create an open source software tool that enables a public agency required by other law to file or submit a financial statement to easily create machine readable documents consistent with the taxonomy or taxonomies developed pursuant to a), above, if necessary. This open source software tool shall have no restriction on its use.
- 7) Requires the Commission to report to the Legislature and make recommendations by January 1, 2021, regarding how to transition financial reporting by state and local agencies to a machine readable format. The report shall include, but not be limited to, the following information:
 - a) The cost of creating a taxonomy, as described in the bill;
 - b) The cost of creating an open source software tool, as described in the bill;
 - c) The amount of time necessary for public agencies to transition to a machine readable format;
 - d) The cost of transitioning all public agencies and how the transition would be funded; and,
 - e) Recommendations regarding whether such a transition is the most cost-effective method of preparing financial statements.
- 8) Allows the Commission to enter into an interagency agreement with the UC or the CSU for consultation on the required report, and requires the report to be submitted in compliance with existing law governing the submission of reports to the Legislature.
- 9) Provides the following definitions:
 - a) “Commission” means the Open Financial Statement Commission;
 - b) “Financial statement” means any financial report or statement that a public agency is required by any state or local law to submit;
 - c) “iXBRL” means Inline eXtensible Business Reporting Language;
 - d) “Public agency” means any state agency, department, board, or commission, county, city, special district, or other political subdivision; and,
 - e) “XBRL” means eXtensible Business Reporting Language.
- 10) Contains a number of findings and declarations, and states the intent of the Legislature to study whether to transition financial reporting by state and local agencies to a machine readable format, such as iXBRL.

11) Provides a sunset date of January 1, 2025.

FISCAL EFFECT: Unknown. This bill is keyed fiscal.

COMMENTS:

- 1) **Background.** Local agencies have been required to file annual financial transaction reports with the SCO since the 1940s. 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.

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 State Controller's Office sets uniform accounting procedures that must conform to GAAP. The financial reports that local governments file with the Controller must contain underlying data from audited financial statements prepared in accordance with GAAP, if this data is available.

These reports include a comprehensive account of a state or local agency's financial condition and includes information on all assets and liabilities of the agency. Local agencies generally prepare their financial statements in Portable Document Format (PDF). This format is human-readable, but is not machine-readable. This means these reports are not easily searchable, making it difficult to compare financial statements across public agencies.

- 2) **XBRL and iXBRL.** Over the last decade, the federal Securities Exchange Commission (SEC) has required private companies to submit financial reports in a machine-readable format known as eXtensible Business Reporting Language (XBRL). Starting in 2020, the SEC will begin moving to a human-readable and machine-readable format, known as the inline eXtensible business reporting language (iXBRL), to make these financial reports searchable and easier to compare. Public agencies in some other countries, such as Spain, already use this format to prepare financial statements. In this country, Florida House Bill 1073 (2018) started that state's rollout of iXBRL and appropriated \$500,000 to develop an iXBRL taxonomy, which is the set of machine-readable tags that allows computers to read these documents.
- 3) **Author's Statement.** According to the author, "SB 598 would provide more transparency for critical accounting documents. Currently, Comprehensive Annual Financial Reports (CAFRs) are provided in a PDF format. This is fine if one has the time to scour the entire document and try to accurately replicate data for reports and other analyses. Why not upload it in a standard that allows for faster analysis and comparisons with other CAFRs? It is required for publicly traded corporations and has improved reporting efficiencies.

"We are California. It is time to move into the 21st century. The concern? Inconvenience and maybe moving too fast. But, once again, the publicly traded industry is years ahead of government, and this bill would also make reporting easier for municipalities. It is time to

have the governments' taxpayers fund to provide a simple data dive opportunity. Stakeholders are investors and it goes back to the basic management principle: if you can't measure it, you can't manage it."

- 4) **Bill Summary.** This bill creates the Commission in the STO and requires it to report to the Legislature and make recommendations by January 1, 2021, regarding how to transition financial reporting by state and local agencies to a machine readable format. The report must include information regarding the cost of creating an XBRL taxonomy, the cost of creating an open source software tool, the amount of time necessary for public agencies to transition to a machine readable format, the cost of transitioning all public agencies and how the transition would be funded, and recommendations regarding whether such a transition is the most cost-effective method of preparing financial statements.

The bill specifies the composition of the Commission and allows it to contract with vendors to build one or more XBRL taxonomies suitable for public agency filings. It also allows the Commission to create an open source software tool that enables a public agency to easily create Inline iXBRL documents consistent with the taxonomy or taxonomies developed. The bill specifies that this open source software tool shall have no restriction on its use.

The bill defines "public agency" to include any state agency, department, board, or commission, county, city, special district, or other political subdivision, and includes a sunset date of January 1, 2025. This bill is sponsored by the author.

- 5) **Policy Considerations.** The Committee may wish to consider the following issues:
 - a) **Commission Membership.** This bill includes one Commission membership seat for a city *or* a county. While counties and cities have similarities, they also have significant differences. In addition, the City and County of San Francisco would not qualify under either definition. The Committee may wish to consider encouraging the author to address representation for all of these categories.
 - b) **Whether or How?** This bill states an intent to study *whether* to transition financial reporting to machine readable formats, but requires the Commission to report and make recommendations regarding *how* to transition financial reporting. The Committee may wish to ask the author for consistency in terms.
- 6) **Arguments in Support.** The Data Coalition, in support, states, "The Data Coalition is the foremost trade association dedicated to the transformation of government information into standardized, open data on behalf of the private sector and the public interest. SB 598 advances the mission of the Data Coalition to advance the adoption of better information practices for the benefit of both the public and federal, state, and local governments. First, we believe governments should adopt non-proprietary data standards to make the information they generate and collect fully interoperable and searchable. Second, wherever government information is legally public, it should be published as open data, freely available in bulk, without licensing or registration restrictions. SB 598 appears to implement both principles.

"Benefits accrue from the data standards proposed by SB 598. In particular, the transformation of municipal financial information into standardized, open data improves democratic accountability, enables better public-sector management and oversight, and

allows compliance processes to be automated. For the private sector, the transformation is creating a new industry. Once government information is expressed as standardized, open data instead of disconnected documents, technology companies can build solutions that republish it to improve democratic accountability, analyze it to enable better management, and automate compliance processes for the benefit of citizens and those tasked with responsibilities for municipal financial oversight.

“Over 1,500 public entities prepare annual financial statements, independently audited, and submitted to the California State Controller. The reports are submitted as a PDF, either in a text-searchable format or as scanned physical documents producing data that are difficult to extract and analyze. Open data reporting, as proposed by SB 598, follows the adoption of open data practices by the Securities and Exchange Commission for operating company financial statements and fund risk/return summary information, as well as by the U.S. Treasury and the Office of Management and Budget (OMB) for spending activity reported centrally by federal agencies under the Digital Accountability and Transparency Act of 2014. Ultimately, this measure will help local governments, private analysts, and the public better track taxpayer dollars by switching to a proven approach that is more accessible, efficient, and user-friendly.”

7) **Arguments in Opposition.** None on file.

8) **Double-Referral.** This bill is double-referred to the Accountability and Administrative Review Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

Bitvore
California Policy Center
California State Treasurer Fiona Ma
Data Coalition
Howard Jarvis Taxpayers Association
Mark V Systems
Object Management Group
Surety Resource Connection
Valley Industry and Commerce Association
Workiva
XBRL US
Six individuals

Opposition

None on file

Analysis Prepared by: Angela Mapp / L. GOV. / (916) 319-3958