

UNIFORM BUDGETING AND ACCOUNTING REQUIREMENTS

Senate Bill 1292 (Substitute H-1) First Analysis (12-5-00)

Sponsor: Sen. Bill Bullard, Jr.
**House Committee: Local Government and
Urban Affairs**
**Senate Committee: Local, Urban and State
Affairs**

THE APPARENT PROBLEM:

Local units of government must file annual budget and audit reports with the state treasurer. When the reports are filed, they follow the requirements of the Uniform Budgeting and Accounting Act, Public Act 2 of 1968. That act places in statute the procedures that govern budgeting practices as they were published by the Municipal Finance Officers' Association of the United States and Canada in a document entitled "Governmental Accounting, Auditing, and Financial Reporting, 1980" as revised.

From time to time the uniform requirements that systematize the uniform budgeting and accounting process become outdated. Updates are necessary because the local treasurers' reporting practices change informally in order to take advantage of innovative advances in custom, practice, and technology. For example, over the past two decades, the day-to-day administration of local government has increasingly become the responsibility of professional managers or chief executive officers. This change acknowledges the fact that local elected officials are usually voluntary and part-time legislators. Although they must be held responsible to craft policy, they need not be held responsible to implement their policy or to operationalize programs. This shift in responsibility that draws a distinction between policy and practice seems to have grown especially apparent in areas where local units of government have had to increase their range of services to ensure the quality of life in highly populated regions of the state.

These kinds of changes in practice have been published in a recently revised chart of accounts that conform to the uniform standards set by the Governmental Accounting Standards Board. To update the statute so that it complies with the standards, legislation has recently been proposed by the Michigan Municipal League and the Michigan Municipal Finance Officers

Association that would revise the uniform budgeting and accounting requirements.

THE CONTENT OF THE BILL:

Senate Bill 1292 would amend the Uniform Budgeting and Accounting Act to update accounting standards and procedures for local units of government.

Currently the state treasurer prescribes uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices. That chart of accounts conforms as nearly as practicable to the uniform standards set forth in "Governmental Accounting, Auditing, and Financial Reporting, 1980" as revised, published by the Municipal Finance Officers' Association of the United States and Canada. Senate Bill 1292 would require instead that charts of accounts conform to the uniform standards set by the Governmental Accounting Standards Board, or by a successor organization that established national generally accepted accounting standards, and was determined acceptable to the state treasurer.

Currently the law makes reference to certain funds for which a local unit acts as a trustee or agent. The bill would retain that provision, and would revise the names of the funds (and references to those funds): the intra governmental service fund would become the internal service fund; the public improvement or building and site fund would become the capital project fund; and, the special assessment fund would become the debt service fund.

Currently the law defines "local unit" to mean a village, city, local school district, an intermediate school district, a township, a county, a county road commission, and an authority or organization of government established by law that may expend funds

of the authority or organization. House Bill 5846 would retain these provisions but delete “local” from the phrase “local school district”, and add a public school academy established under the Revised School Code. Under the bill the definition for “local school district” would then be eliminated.

The bill would revise the reference to an “official granted general administrative control of an authority or organization of government established by law” to delete a reference the this entity’s ability to issue obligations pursuant to the municipal finance act, and to levy a property tax. Other definitions that include references to this type of governmental entity would be similarly revised.

The law defines “fiscal officer” to mean the controller, finance director, business manager, or other elected or appointed official who prepares and administers the budget of a local unit. Under the bill, this definition would be eliminated, as would references to “fiscal officer” within the act. The responsibilities that now generally rest with the chief administrative officer, or in the absence of an official so-designated, with the fiscal officer, would be reserved instead for the administrative officers and others in a local unit’s management team.

Further, the law defines “local unit” to mean a village, city, or township or authority or commission established by a county, village, city, or township ordinance or charter. The bill would retain this provision and add authorities or commissions established by resolution or motion.

Currently the law describes the kind of financial information that is required in the annual financial report for each fiscal year, including derivative instruments or products in the local unit’s nonpension and pension investment portfolios. The bill would extend these provisions by re-defining “pension”. Under the bill and for the purposes of the required financial report, “pension” would include a public employee health care fund as defined in the Public Employee Health Care Investment Fund Act, Public Act 149 of 1999. The new definition would have the effect of also requiring that the annual financial report include the derivative instruments or products in the local unit’s nonpension and nonpublic employee health care fund, as well as derivative instruments or products in the local unit’s pension and public employee health care fund investment portfolios.

The law requires that one copy of an annual financial report, and one copy of the audit report, be filed with

the state treasurer within 120 days after the end of the fiscal year of the local unit. The bill would modify this reference by changing it from 120 days to six months. The law further specifies that the governing body may request an extension of the filing date from the state treasurer, and the state treasurer may grant the request for reasonable cause. Under the bill, this provision would be retained, but the chief administrative officer of the local unit (rather than the governing body of a local unit) would request the extension. Further, the bill specifies that if the local unit requested an extension of the filing deadline, then it would be required to provide to the Department of Treasury the unadjusted year-end trial balance reports, in a form and manner prescribed by the department, at the time it requested the extension. Under the bill, the department would post the unadjusted year-end trial reports on its Internet web site if the extension was granted.

Further and under the bill, the state treasurer could require that the audit report, or the report of auditing procedures, or both, be filed with the state treasurer in an electronic format. Finally, a chief administrative officer who requested an extension would be required within 10 days to inform the governing body, in writing, of the request.

Under the law, every audit report must, among other things, state that the financial statements in reports have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and with applicable rules and regulations of any state department or agency. Under the bill, the phrase “applied on a consistent basis” would be eliminated.

Under current law, the chief administrative officer has final responsibility for budget preparation, presentation of the budget to the legislative body, and the control of expenditures under the budget and the general appropriations act, unless otherwise provided by law, charter, resolution, or ordinance. The chief administrative officer is required to prepare a recommended annual budget and to transmit the budget to the legislative body using a time schedule that allows adequate time for review before the budget year starts. Senate Bill 1292 would require that the time schedule also allow adequate time for adoption (in addition to review). The law requires that the chief administrative officer furnish information that the legislative body requires for proper consideration of the recommended budget, and it specifies that this may include expenditure and revenue data on the local unit’s most recently completed fiscal year. Senate Bill 1292 would retain this provision but would eliminate the sentence “This may include expenditure and revenue

data on the local unit's most recently completed fiscal year."

The law currently requires that certain information be included in the recommended budget. Senate Bill 1292 would eliminate some kinds of information. Specifically, under the law the budget must include an estimate of the amounts needed for deficiency, contingent, or emergency purposes. This provision would be retained under the bill, but the phrase "and the amounts needed to pay and to discharge the principal and interest of debt of the local unit due in the ensuing fiscal year" would be deleted.

Further, the bill would delete the requirement that the budget include "The amount of proposed capital outlay expenditures, except those financed by enterprise, public improvement or building and site, or special assessment funds, including the estimated total cost and proposed method of financing of each capital construction project and the projected additional annual operating cost and the method of financing the operating costs of each capital construction project for three years beyond the fiscal year covered by the budget." In addition, the bill would delete the requirement that the budget include "An informational summary of projected revenues and expenditures of any special assessment funds, public improvement or building and site funds, intra governmental service funds, or enterprise funds, including the estimated total costs and proposed method of financing each capital construction project, and the projected additional annual operating cost and the method of financing the operating costs of each capital construction project for three years beyond the fiscal year covered by the budget."

Finally, Senate Bill 1292 specifies that no duties could be delegated to the chief administrative officer that would diminish any charter or statutory responsibilities of an elected or appointed official.

MCL 141.421 et al

HOUSE COMMITTEE ACTION:

The House Committee on Local Government and Urban Policy adopted Substitute H-1 for the bill, which incorporates two amendments added to the bill on the Senate floor. Thus, the House committee version is identical to the bill as it passed the Senate.

BACKGROUND INFORMATION:

With two exceptions, Senate Bill 1292 (H-1) is substantially similar to House Bill 5846, which has passed the House and is under consideration in the Senate. The two provisions added by the Senate are as follows:

-Currently the law defines "local unit" to mean a village, city, or township or authority or commission established by a county, village, city, or township ordinance or charter. The bill would retain this provision and add authorities or commissions established by resolution or motion.

-Further, the bill specifies that if the chief administrative officer of a local unit requested an extension of the annual financial report filing deadline, then he or she would be required to provide to the Department of Treasury the unadjusted year-end trial balance reports, in a form and manner prescribed by the department, at the time the extension was requested. Under the bill, the department would post the unadjusted year-end trial reports on its Internet web site, if the extension was granted.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency notes that Senate Bill 1292 would have no fiscal impact on the state. Some local units could be required to alter software or other operations to comply with government accounting standards as required by the bill, and these changes could result in some local units' incurring additional one-time expenses. However, such expenses would likely be minimal. (10-4-00)

According to the House Fiscal Agency, the bill would have no fiscal impact on the state. It would have a minimal fiscal impact on local units of government. (12-1-00)

ARGUMENTS:

For:

This legislation would update the uniform budgeting and accounting requirements that local treasurers follow when they file their annual audits and budgets with the state treasurer. The legislation is needed so that the statute will conform with the incremental changes in practice that have emerged during the last few decades.

Against:

This legislation shifts some of the responsibility for the day-to-day administration of local government from elected officials to appointed administrators. In doing so, it also, arguably, shifts the accountability for local government decision-making. Although this change may well comport with the emerging norms of professional budgeting and accounting practices--as well as the increasing professionalism of government, generally--it should be acknowledged that the shift in responsibility changes the face of local government and the ways it stands accountable to the citizens who are taxpayers.

POSITIONS:

The Department of Treasury supports the bill. (11-30-00)

The Michigan Municipal League supports the bill. (11-30-00)

The Michigan Municipal Finance Officers Association supports the bill. (11-30-00)

The Michigan Townships Association supports the bill. (11-30-00)

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#This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.