



House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

LOCAL GOVERNMENT UNIFORM BUDGETING AND ACCOUNTING

House Bill 5846 (Substitute H-2) First Analysis (10-4-00)

Sponsor: Rep. Marc Shulman
**Committee: Local Government and Urban
Policy**

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 uniform budgeting and accounting requirements established by 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From time to time the uniform requirements that systematize the uniform budgeting and accounting process become outdated.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:

House Bill 5846 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. House Bill 5846 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.

House Bill 5846 (10-4-00)

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 to 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.

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. These provisions would be retained.

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, under the bill, a chief administrative officer who requested an extension under this provision would be required within 10 days of making the request, to inform the governing body in writing.

In addition and under the bill, the state treasurer could require that the annual financial report and audit required by the act be filed with the state treasurer in an electronic format that the state treasurer prescribed. The law also requires the state treasurer to grant a 60-day extension if the local unit presents evidence that the audit is in progress, and will be completed within 180 days after the end of the fiscal year. Under the bill, this provision would be eliminated.

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.

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. House Bill 5846 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. House Bill 5846 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. House Bill 5846 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, House 5846 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

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that House Bill 5846 would extend the time required for local units to file various financial reports with the state treasurer and remove reporting requirements from the recommended budget. The bill would have no state or local fiscal impact. (9-27-00)

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. (10-4-00)

The Michigan Municipal League supports the bill. (10-4-00)

The Michigan Municipal Finance Officers Association supports the bill. (10-4-00)

Analyst: J. Hunault

#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.