

An act to add and repeal Chapter 23.5 (commencing with Section 7540) of Division 7 of Title 1 of the Government Code, relating to public agency financial reporting, and making an appropriation therefor.

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## THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Chapter 23.5 (commencing with Section 7540) is added to Division 7 of Title 1 of the Government Code, to read:

## CHAPTER 23.5. OPEN FINANCIAL STATEMENTS

7540. This chapter shall be known, and may be cited, as the Open Financial Statements Act.

7540.1. The Legislature finds and declares all of the following:

(a) Most local agencies submit two sets of annual financial statements to the Controller: a single audit reporting package in portable document format (PDF) and a financial transactions report. This dual reporting requirement creates an extra burden on local agencies and creates the risk of the Controller receiving inconsistent data.

(b) Other public entities, including the state, separately reporting component units of the state, and public pension systems, also file audited financial statements in PDF, rendering them difficult to analyze.

(c) Transitioning these documents to machine readable formats will ease the identification of fiscally distressed local governments and increase liquidity in the municipal bond market.

(d) Federal adoption of the Financial Data Transparency Act of 2022 and the Governmental Accounting Standards Board's announcement that it is developing a reporting taxonomy in 2025 suggests that the trend toward replacing PDF financial reports is gaining momentum.

(e) It is therefore the intent of the Legislature to study how to transition financial reporting by state and local agencies to a machine readable format, such as Inline eXtensible Business Reporting Language (iXBRL).

7540.2. For purposes of this chapter:

(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) "Public agency" means any state agency, department, board, or commission, county, city, special district, or other political subdivision.

7540.3. (a) There is hereby established in the Treasurer's office the Open Financial Statement Commission.

(b) The commission shall consist of the following nine members:

(1) A representative from the Controller's office, to be appointed by the Controller.

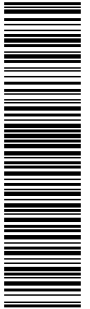
(2) A representative from the California Debt and Investment Advisory Commission within the Treasurer's office, who shall serve as the chair of the commission.

(3) A representative from the California State Auditor's Office, to be appointed by the California State Auditor.

(4) A representative of a city or a county.

(5) A representative of a special district.

(6) A researcher who has knowledge and experience in government accounting, affiliated with either the University of California or the California State University.



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- (7) A municipal bond investor.
- (8) An information technology professional employed in the private sector.
- (9) A person with knowledge and experience in data modeling for open data standards.

(c) Except as otherwise provided in paragraphs (1) and (3) of subdivision (b), members of the commission shall be appointed by and serve at the pleasure of the Treasurer.

(d) Meetings of the commission shall be open and public in accordance with the Bagley-Keene Open Meeting Act (Article 9 (commencing with Section 11120) of Chapter 1 of Part 1 of Division 3 of Title 2).

7540.4. (a) The sum of five hundred thousand dollars (\$500,000) is hereby appropriated from the General Fund to the Open Financial Statement Commission for the performance of its duties under this chapter.

(b) The commission may employ staff as may be necessary for the performance of its duties under this chapter, provided that the total expenditure on commission activities shall not exceed five hundred thousand dollars (\$500,000).

7540.5. (a) The commission may contract, through an open and competitive request for proposal process, and consistent with Section 12100 of the Public Contract Code, with vendors possessing the necessary software and financial data standards development expertise to do both of the following:

(1) Build extensions to the Governmental Accounting Standards Board taxonomy to ensure compatibility with California state and local government financial reporting requirements.

(2) Create an open source software tool, or adopt an existing 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 extensions developed pursuant to paragraph (1), if necessary. The open source software tool created pursuant to this paragraph shall have no restriction on its use.

(b) (1) No later than January 1, 2027, the commission shall report to the Legislature and make recommendations 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 an extension, as described in subdivision (a).

(B) The cost of creating or adopting an open source software tool, as described in subdivision (a).

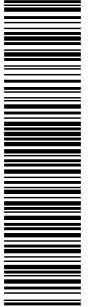
(C) The amount of time necessary for public agencies to transition to a machine readable format.

(D) The cost of transitioning all public agencies and how the transition would be funded.

(E) Recommendations regarding whether such a transition is the most cost-effective method of preparing financial statements.

(2) The commission may enter into an interagency agreement with the University of California or the California State University for consultation on the report described in paragraph (1).

(3) The report required to be submitted pursuant to this subdivision shall be submitted in compliance with Section 9795.



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7540.6. This chapter shall remain in effect only until January 1, 2028, and as of that date is repealed.

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## LEGISLATIVE COUNSEL'S DIGEST

Bill No.  
as introduced, \_\_\_\_\_.  
General Subject: Open Financial Statements Act.

Existing law imposes various financial reporting requirements on state and local government agencies. Those requirements include the requirements of state agencies to report state money received to the Controller monthly and to prepare and maintain financial and accounting data for inclusion in the Controller's budgetary-legal basis annual report and other budget-related documents, as specified. Those requirements also include the requirement that the officer of each local agency who has charge of the financial records furnish to the Controller a report of all the financial transactions of the local agency during the preceding fiscal year.

This bill would enact the Open Financial Statements Act. The bill would establish the Open Financial Statement Commission, consisting of 9 members, in the Treasurer's office. The bill would authorize the commission to contract, through an open and competitive request for proposal process, with vendors possessing the necessary software and financial data standards development expertise to build extensions to the Governmental Accounting Standards Board taxonomy and create or adopt a software tool that enables a public agency to easily create machine readable documents consistent with these taxonomies, if necessary. The bill would require the commission, by January 1, 2027, to report to the Legislature and make recommendations regarding how to transition financial reporting by state and local agencies to a machine readable format. The bill would appropriate \$500,000 from the General Fund to the Open Financial Statement Commission for the performance of its duties. The bill would repeal the Open Financial Statements Act as of January 1, 2028.

Vote:  $\frac{2}{3}$ . Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

