



**THE OHIO STATE UNIVERSITY**  
JOHN GLENN COLLEGE OF PUBLIC AFFAIRS

Testimony in Support of H.B. 3  
Before the Ohio House of Representatives  
132<sup>nd</sup> General Assembly  
Finance Committee

Edward W. [Ned] Hill, Ph.D.  
Professor of Public Affairs and City & Regional Planning  
John Glenn College of Public Affairs  
The Ohio State University

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The opinions and recommendations are those of the author and do not represent a policy position or views of either the John Glenn College of Public Affairs or The Ohio State University.

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I am Edward W. Hill, Professor at the John Glenn College of Public Affairs at The Ohio State University and a member of the faculty of the College of Engineering's Ohio Manufacturing Institute. I teach public economics, public finance, and economic development.

I am testifying in favor of House Bill 3, which is more commonly known as the DataOhio Bill.

Today former Governor and Senator George Voinovich's dictum of "doing more with less, while working harder and smarter" applies as never before for our local governments. At the same time the possibility of evidence-based accountability and government transparency is closer at hand thanks to technologies provided by the Internet and the architecture of big data. But, as illustrated by the accompanying

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*"We have lots of information technology. We just don't have any information."*

cartoon, technology alone does not do enough to unleash the potential of a digitally informed government.

House Bill 3 offers the prospect of enhancing the management capabilities of local governments, as well as providing the public with better understanding of the management practices of local government. My testimony today has three parts. I first discuss the goals of the proposed legislation. I then note the movements of national regulatory agencies to mandate improvements in financial reporting by local governments. I then discuss

the elements of the proposal in the second section of my testimony.

## Goals

The bill has three broad goals: (1) develop consistent and comparable data for different types of local government; (2) ensure that the data are accessible to the public; and, by implication, (3) enable the public to analyze the data.

The first goal of the proposed bill is to develop consistent revenue and expenditure data for local governments. The bill charges the Auditor of the State of Ohio to develop uniform charts of accounts for the different units of local government [municipalities, county government, etc.] so that data for each type of local government will be comparable with others of the same type. These data are needed to answer two of the most basic questions of governmental accountability: How is the government performing against some benchmark? What are the government's revenues and expenditures over time?

The benefits that can be derived from these data systems are many. Fiscal warning indicators can be developed and meaningful interventions can be made to head off managerial troubles before a unit of local government has to enter fiscal emergency. Local governmental leaders can identify benchmark communities to examine their revenue and expenditure patterns. If supplemented with data on employee headcount and output measures, local governmental leaders will have a better understanding of their service levels to their constituents and the efficiency with which they dispatch those services. Local leaders will also have a way to identify potential best practices among their peers. Consistent and comparable charts of accounts should also lower the cost of audits and make it easier to file Comprehensive Annual Fiscal Reports [CAFRs]<sup>1</sup>

### **The Grinding Progress of the Regulators**

A second set of benefits to local government will occur as national regulatory bodies move to improve financial reporting to the bond market and as the practices of municipal financial advisors are improved. The testimony of Gene Krebs before this committee discussed the Governmental Accounting Standards Board's [GASB] September 2015 announcement of a project to "reexamine the blueprint of state and local government financial reporting."<sup>2</sup> The items examined in the GASB project that pertain to Ohio's municipalities and the DataOhio bill are:

- **Government-Fund Financial Statements**—Explore alternatives for the format of the statement of activities and assess whether the value of the information provided by a government-wide statement of cash flows would outweigh the

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<sup>1</sup> *Governing*, September 2012, "Are Comprehensive Annual Financial Reports Useless?" <http://www.governing.com/topics/finance/gov-are-annual-financial-reports-useless.html> and the Texas Transparency Project, *Guide to Understanding Comprehensive Annual Fiscal Reports* (CAFRs) [http://www.texastransparency.org/State\\_Finance/Budget\\_Finance/CAFR\\_FAQ.php](http://www.texastransparency.org/State_Finance/Budget_Finance/CAFR_FAQ.php)

<sup>2</sup> GASB. Financial Reporting Model Examination. [http://www.gasb.org/jsp/GASB/Page/GASBBridgePage&cid=1176166431214#section\\_4](http://www.gasb.org/jsp/GASB/Page/GASBBridgePage&cid=1176166431214#section_4)

costs of providing that information.

- **Major Funds Reporting**—Explore options for providing additional information about debt service funds.
- **Proprietary Fund Financial Statements**—Explore options for enhancing the consistency and usefulness of presenting operating and non-operating revenues and expenses.
- **Budgetary Comparison Information**—Explore options for enhancing the consistency of the presentation method and value of budgetary information.

GASB started its Task Force meetings in June 2016 to consider research the GASB staff completed in July 2015. The public comment period to the Task Force closed and a public hearing was held in the Spring of 2017. The Task Force is due to release its preliminary report in April 2018, have field testing and a comment period to close in November 2018, with following Public Hearings in January 2019. Standards are scheduled to be finalized and voted on in various stages in 2020 and 2021. This is a slow, methodical process; it is also a relentless process and one that Ohio's local governments should monitor, participate in, and prepare for. The passage of DataOhio and the implementation of its several parts will be part of accessing the competitive public capital markets in the near future.

The Securities and Exchange Commission continues to implement its extensive 2012 report on the market for municipal securities.<sup>3</sup> The statement on comparability to municipal financial information bears directly on what the state will accomplish with the DataOhio bill:

*Comparability of Financial Information:* There are no uniformly applied accounting standards in the municipal security market and the Commission generally lacks authority to prescribe the accounting standards that municipal issuers must use. The Governmental Accounting Standards Board ("GASB") establishes generally accepted accounting principles ("GAAP") ... Market participants noted that adherence to GASB standards promotes consistency and comparability of financial information among municipal issuers and differing municipal securities.<sup>4</sup>

Among the legislative approaches that the SEC is considering to "provide the Commission authority to establish improved disclosures and practices in the municipal securities market"<sup>5</sup> are:

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<sup>3</sup> Securities and Exchange Commission [SEC]. July 31, 2012. Report on the Municipal Securities Market. <https://www.sec.gov/news/studies/2012/munireport073112.pdf>

<sup>4</sup> SEC. 2012. Report on the Municipal Securities Markt. P. iv.

<sup>5</sup> Ibid, p. viii.

- Authorization to “establish the form and content of financial statements for municipal issuers ... including the authority to recognize the standards of a designated private-sector body as generally accepted for the purposes of federal securities laws, and provide the Commission with attendant authority over such private-sector body.
- Authorize the Commission, as it deems appropriate, **to require municipal securities issuers to have their financial statements audited** [emphasis mine], whether by an independent auditor or a state auditor.

The SEC finds that “sound financial statements are critical to the integrity of the primary and secondary markets for municipal securities. ...” Municipal issuer financial statements provide investors with critical information to assess the financial condition of municipal issuers and to enable investors to analyze their investments. This information is also important to other stakeholders, such as government agencies and taxpayers. Additional financial information, such as budgetary information, can be used by investors and creditors to identify future demands on government resources that could negatively impact the ability of governments to repay their obligations. That same information can be used by citizens and citizen groups to assist them in analyzing whether tax dollars were spent in accordance with budgetary restrictions.”<sup>6</sup>

The Municipal Securities Rulemaking Board (MSRB) is a self-regulating organization that is subject to regulatory oversight by the SEC.<sup>7</sup> The MSRB is designated by the SEC to be the central repository for continuing municipal securities disclosure under the SEC’s 2008 amendment of the Exchange Act Rule 15c2-12.” The MSRB established an electronic repository for municipal security disclosure documents. These include official statements and continuing disclosures that are associated with municipal securities offerings. These include “information relating to the preparation and submission of audited financial statements and/or annual financial information and hyperlinks to other information available from the issuer’s website.”<sup>8</sup>

The major benefit from the first goal of the DataOhio proposal is to provide the building blocks of sound public finance that encourage fiscal discipline, public accountability, encourage efficient and effective public management, and are necessary for municipalities and other units of local government to borrow on the securities markets.

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<sup>6</sup> Ibid, p. 69.

<sup>7</sup> A description of the activities and scope of the MSRB exists on its Wikipedia page: [https://en.wikipedia.org/wiki/Municipal\\_Securities\\_Rulemaking\\_Board](https://en.wikipedia.org/wiki/Municipal_Securities_Rulemaking_Board) The MSRB has posted information on its regulation of Municipal Advisors under the Dodd-Frank Law. Information on the MSRB’s two rules related to the activities of Municipal Advisors are on MSRB’s web site. Rule G-42, Duties of a Municipal Advisor, are at: <http://www.msrb.org/Rules-and-Interpretations/MSRB-Rules/General/Rule-G-42.aspx>. Rule G-44, Supervisory and Compliance Obligations of Municipal Advisors are at: <http://www.msrb.org/Rules-and-Interpretations/MSRB-Rules/General/Rule-G-44.aspx>

<sup>8</sup> SEC, 2012, op. cit., p. 35.

### **The Elements of the Proposal**

The proposal begins by making participation by local governments voluntary. While it is desirable to have all local governments participate, making that participation voluntary is acceptable. A combination of market forces from the securities markets and incentives provided by lowering the cost and improving the accuracy of audits should provide incentive to join. Mayors, city managers and chief fiscal officers will quickly learn that these data will improve their ability to lead their governments and to anticipate managerial challenges.

The second major element of the proposal is to have the Auditor of the State of Ohio develop appropriate charts of accounts for each type of local government. This is an essential element of the proposal. It is joined by making the data both public and accessible. It appears that the State Librarian and the Board that is to be formed around this proposal is also charged with ensuring that the data are in forms so that they can be manipulated and analyzed statistically. However, this is not clear. To derive maximum public benefit, the data need to be analytically accessible longitudinally for each unit of local government as well as cross-sectionally, or across all units of government in any year. This proposal must go beyond requiring that fiscal data be publicly posted. The proposal must allow that fiscal data be in a form that allows for statistically based fiscal analysis.

Leading and managing a unit of local government, be it a village, township, municipality, school board, special district, or a county, without using Generally Accepted Accounting Principles (GAAP) and issuing a financial statement that do not meet Generally Acceptable Auditing Standards is malpractice.

Governing without fiscal controls and auditable reports and not being able to compare practices and performance with peer governments is like flying a plane in a fog bank with damaged instruments—it is unnecessary and dangerous. You may land in the right place but you were on a miserable flight that took unnecessary risks.

Thank you for your time and providing me with the opportunity to present my testimony to the Committee.