

The Truth in Accounting Act
Model Legislation
Work-In-Progress

Legislative intent. It is the intent of this Act to develop a State budget process that:

- (1) Permits the State government, which derives its powers from the consent of the governed, to fulfill its special responsibility to report on its actions and results of those actions.
- (2) Establishes the State's duty to report the best estimate of its own financial condition.
- (3) Provides financial transparency.
- (4) Presents a comprehensive indication of the total activity of State and the long-term effects of current policy.
- (5) Highlights the long-term financial implications of the budgetary process.
- (6) Provides full costing information to determine accountability and performance measurements.
- (7) Strengthens the governor's and the general assembly's ability to determine compliance with the intent of the State's balanced budget requirement, which is to preserve intergenerational equity promulgated by the Governmental Accounting Standards Board (GASB).
- (8) Emphasizes the budget's imposition of undue burdens for past and current year services upon future taxpayers, including unborn the State residents and the State residents who, at the time a budget is enacted into law, are too young to vote.
- (9) Allows the governor, legislators and the public to determine if future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.
- (10) Recognizes revenues when earned and costs when incurred rather than when they are paid.
- (11) Reflects the principle that inter-period borrowing to fund operating expenses violates the intent of the State's balanced budget requirement.
- (12) Defines "trust funds" as those with fiduciary component.
- (13) Requires production of the State's Comprehensive Annual Financial Report within 90 days after the State's fiscal year end.

Definitions.

- (1) "Amounts Due Pension Funds" shall be defined as the UAAL for the State Pension Plans, including the portion of Multiple-employer plans attributed to the State.
- (2) "All applicable revenues sources" shall include only own source revenues including:
 - a) Personal Income Tax
 - b) Corporate Income Tax
 - c) Corporate Personal Property Replacement Tax
 - d) Sales Tax retained by the state
 - e) Excise Taxes (e.g. alcohol, gasoline, energy)
 - f) User Fees
 - g) Fines and Penalties
 - h) Gaming Taxes
 - i) Investment Income
 - j) Unencumbered funds provided by other governmental units
 - k) Or any other revenue source for which the state has no ongoing or unfulfilled obligation to any other party.
- (3) "Assets Restricted By Law or Contract" shall be restricted assets as defined by GASB concepts outlined in Governmental Accounting Standards Board Statement 34.
- (4) "Benefit Enhancements" is defined as the Actuarial Present Value of Total Projected Benefits attributed to the estimated increase in the benefits of retirees or beneficiaries granted by the

proposed budget or, proposed or enacted changes to the State Pension Law. The benefit enhancements that result from plan members' expected future service amount may be reduced by the amount of specified revenue sources enacted into law.

- (5) "Budget fiscal documents" shall be defined as the estimated Balance Sheet, the estimated State of Activities, the estimated State of Cash Flow, the Statement of Fiscal Balance, the Statement of Fiscal Deficit and the Financial State of the State
- (6) "CAFR Preparer" shall be defined as the State official responsible for preparing the State's Comprehensive Annual Financial Report.
- (7) "Capital Assets", "Capital Assets, Net of Related Debt" and "Fiduciary funds" shall be defined using GASB concepts outlined in Governmental Accounting Standards Board Statement 34.
- (8) "Commission" shall be defined as the agency responsible for preparing budget estimates.
- (9) "Estimated Statement of Activities" shall be an estimated Statement of Activities prepared using the GASB concepts outlined in GASB 34.
- (10) "Estimated Balance Sheet" shall be an estimated Statement of Net Assets prepared using the GASB concepts outlined in GASB 34.
- (11) "Estimated Statement of Cash Flow" shall be an estimated Statement of Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities prepared using the GASB concepts outlined in GASB 34.
- (12) "Estimated Retirement Plans' Assets Gain or Loss" is defined as the change in the Actuarial Value of Assets at the beginning of the budget period and the Actuarial Value of Assets at the end of the budget period.
- (13) "Fiscal Budget Documents" shall be the estimated Balance Sheet, the estimated Statement of Activities, the estimated Statement of Cash Flow, the estimated Statement of Fiscal Balance, the estimated Statement of Fiscal Deficit and the estimated Financial State of the State.
- (14) "Government-Wide Generally Accepted Accounting Principles (State Wide GAAP)" shall be the accounting standards used in the preparation of the State's government-wide financial statements, using GASB concepts outlined in the Governmental Accounting Standards Board Statement 34. While the Governmental Accounting Standards Board does not prescribe standards for preparing governmental budgets, the accounting standards' concepts shall be applied to the budget documents prepared under this section.
- (15) "Increase (Decrease) in Pension Benefits Due" shall be the change in the State's pension plans' estimated Actuarial Accrued Liability at the beginning of the budget period and the sum of each pension plan's estimated Actuarial Accrued Liability at the end of the budget period.
- (16) "Increase (Decrease) in OPEB Benefits Due" shall be the change in the State's OPEB plans' estimated Actuarial Accrued Liability at the beginning of the budget period and the State's OPEB plans' estimated Actuarial Accrued Liability at the end of the budget period.
- (17) "Net Pension Obligation (Asset)", "Net Other Post Employment Obligation (Asset)", "Actuarial Value of Assets", "Actuarial Accrued Liability" and "Unfunded Actuarial Accrued Liability (UAAL)" "Actuarial Present Value of Total Projected Benefits" shall be defined using GASB concepts outlined in GASB Statement 45, GASB Statement 25 and GASB Statement 27, as amended by GASB 50.
- (18) "Off Balance Sheet Pension Liabilities" shall be the difference between the State pension plans' Estimated UAAL and the estimated Net Pension Obligation (Asset) included in the estimated Balance Sheet.
- (19) "Off Balance Sheet OPEB Liabilities" shall be the difference between the State OPEB plans' Estimated UAAL and the estimated Net OPEB Obligation (Asset) included in the estimated Balance Sheet.

- (20) "OPEB" shall be defined as other post-employment benefits, which include retirement benefits except those considered as pension plans.
- (21) "Other Funds Available" shall be defined as:
- a) Funds which result from the actions of another entity or government;
 - b) Funds received that are held in trust or have a fiduciary element;
 - c) pass-through funds or funds received by the state when acting as an agent or collector for another entity;
 - d) Pension contributions made by state employees not used to pay pensions or used to purchase assets for the state's pension funds;
 - e) That portion of sales tax collections which retailers pay to the state but which will be remitted to home rule and local governments;
 - f) Court-ordered collections of child support;
 - g) Inter-period borrowings;
 - h) Prepaid tuition plans;
 - i) And any other source of funds for which the state has an unfulfilled or ongoing obligation.
- (22) "Reporting Offices" shall be defined as the offices of the Auditor General, the Governor, the Speaker and Minority Leader of the House of Representatives, and the President and Minority Leader of the Senate
- (23) "Retirees' Health Care Benefits Due" shall be defined as the UAAL for the State OPEB Plans, including the portion of Multiple-employer plans attributed to the State.
- (24) "State Pension Plans" are the State's Single-Employer pension plans and the portion of Agent Multiple-Employer pension plans attributed to the State.
- (25) "State OPEB Plans" are the State's Single-Employer Other Post Employment Benefit (OPEB) plans and the portion of Agent Multiple-Employer OPEB plans attributed to the State.

Title I: Financial Reports Preparation

Section 1: Timing of Reporting.

- a. Within forty five days of each fiscal year end, State agencies shall report to the CAFR preparer all financial information necessary to prepare a comprehensive annual financial report for the prior fiscal year end. The CAFR preparer may require certain State agencies to report the information prior to the forty five day period under a schedule established by the CAFR preparer. Whenever the CAFR preparer determines that a State agency is delinquent in reporting the information, the CAFR preparer shall notify in writing the reporting offices of the delinquency and post notice of the delay on the CAFR preparer's official website.
- b. The CAFR Preparer shall publish the Comprehensive Annual Financial Report (CAFR) no more than 90 days after the end of each State fiscal year. If the report is not published within that period, the CAFR prepare must promptly give notice of the delay to the reporting offices and post notice of the delay on the CAFR preparer's official website.

Section 2: Use of Generally Accepted Accounting Principles.

- a. Effective the beginning of the next fiscal year, the financial accounting and reporting standards to be used by all State government and statement agencies shall be in compliance with accounting standards as prescribed by the Governmental Accounting Standards Board (GASB).
- b. The CAFR shall be prepared in accordance with the Generally Accepted Accounting Principles. The Report shall include explanations of any variance that exists between the estimates adopted by the General Assembly for each year, and the actual numbers reported. The CAFR Preparer shall, by

administrative rule, determine a time line and protocol for the publication of this Report within 90 days of the fiscal year end.

Section 3: Appropriations Bills Transparency.

- a. The General Assembly shall publish, by means of the Internet on a web page controlled by the General Assembly, the text of all appropriations bills. Each publication shall include embedded time reading until at least 72 hours after the time of electronic publication. No amendment to an appropriation bill shall be considered on second reading until at least 72 hours after the amendment has been published electronically.

Title II: Balanced Budget Calculation

Section 1. Revenues.

- a. The Commission shall publish, at the convening of each regular session of the General Assembly, a report that clearly separates and distinguishes All Applicable Revenues and Other Funds Available.
- b. The Commission shall prepare a calculation to determine if the proposed budget meets the state constitution balance budget requirement. All Applicable Revenues shall be included as available resources for the purpose of calculating the Constitution's balance budget requirement. Other Funds Available shall not be included as available resources in the budget estimate.

Section 2. Expenses. (work in progress)

Section 3. Preparation of Fiscal Budget Statements.

- a. As soon as possible after the proposed budget is introduced, but at least 72 hours before the final vote on the budget, the Commission shall include an estimated Balance Sheet, an estimated Statement of Activities and estimated Statement of Cash Flow.
- b. The Commission shall also prepare:
 - i. The Statement of Fiscal Balance [see Exhibit 1] which shall include:
 - A. The columns used in the estimated Balance Sheet.
 - B. The Total Net Assets, as determined in the estimated Balance Sheet,
 - C. The Off- Balance Sheet Pension Liability
 - D. The Off Balance Sheet OPEB liability
 - E. The resulting Fiscal Balance.
 - ii. The Statement of Fiscal Deficit [see Exhibit 2] which shall include:
 - A. The columns used in the estimated Statement of Activities.
 - B. The change in net assets, as determined in the estimated Statement of Activities,
 - C. Benefit Enhancements,
 - D. Retirement Plans' Assets Gain or Loss,
 - E. Increase (Decrease) in Pension Benefits Due,
 - F. Increase (Decrease) in OPEB Benefits Due
 - G. The resulting Fiscal Deficit.
 - iii. The Financial State of the State [see Exhibit 3] which shall include:
 - A. Amounts reported on the State's Comprehensive Annual Financial Report (CAFR) for the State's fiscal year two years prior to the current budget year.
 - B. The estimated values from last period's budget.
 - C. The estimated values from the current budget period.
 - D. What We Own
 - I. Capital Assets.
 - II. Other Assets

- a. Derived from the Total Assets reported on the Statement of Net Assets/Balance Sheet minus Capital Assets.
 - III. OUR ASSETS
 - a. Which shall equal the Total Assets.
- E. What We Owe
 - I. The amount of State bonds, including, but not limited to, General Obligation Bonds and Special Revenue Bonds.
 - II. Amounts Due Pension Funds.
 - III. Retirees' Health Care Benefits Due.
 - IV. Other Liabilities which is derived by subtracting the State bonds, the Net Pension Obligation and the Net OPEB Obligation from the Total Liabilities reported on the Statement of Net Assets/Balance Sheet.
 - V. OUR BILLS
 - a. Which is the sum of the items.
- F. Where We Stand
 - I. Net Assets (Financial Position) (D minus E)
- G. Funds Needed to Pay Our Bills
 - I. Net Assets (Financial Position)
 - II. Capital Assets, Net of Related Debt
 - III. Assets Restricted By Law or Contract
 - IV. Funds Needed to Pay Our Bills
 - a. (I minus II and III)
 - V. Per family, which is derived by dividing the Government's Financial Position divided by the State population estimate as determined by the U.S. Census Bureau divided by national average size of a family as determined by the U.S. Census Bureau.

Title III. Midterm reporting.

- a. The March estimates shall include a variance report of the ongoing fiscal year's budget and appropriations. **(working in progress)**

Title IV. Preparation of fiscal budget documents using State Wide-GAAP.

- a. The Commission shall publish the fiscal budget statements outlined in this Act in concert with State Wide-GAAP. The fiscal budget statements should display information about the State as a whole. The fiscal budget statements should include the primary State and its component units, except for the fiduciary funds of the primary State and component units that are fiduciary in nature. The fiscal budget statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. The fiscal budget statements should not be presented using the current financial resources measurement focus and the modified accrual basis of accounting, which are used to prepare the State's governmental funds financial statements. The Commission shall work with each of the State's pension and OPEB plans' actuaries to determine the pension and OPEB amounts needed to prepare the fiscal budget statements.

Title V. Adopting fiscal budget documents.

- a. The General Assembly shall not enact any bill to appropriate funds within any fiscal year prior to their adoption of the joint resolution accepting the amounts reported on the fiscal budget documents.

b. Effective date. Immediate effect date.

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We are anxious to assist you in drafting legislation for your state or local government.

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