



FDTA PLAYBOOK

Owning your fiscal future

How local governments can prepare for the Financial Data Transparency Act



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Overview

At the close of 2022, many people involved in municipal finance **were caught off guard** when a low-lying federal financial data transparency bill suddenly **became law** for state and local governments. The Financial Data Transparency Act's (FDTA) passage set off a four-year implementation countdown timer that many believe will bring unprecedented transparency and access to municipal financial data.

Simply put, the FDTA directs the Securities and Exchange Commission to adopt new uniform data reporting standards for all financial disclosures filed with the Municipal Securities Rulemaking Board. The documents must be machine-readable, and the information must be searchable via a structured data format tagged with identifier codes allowing for greater data analysis and comparability.

After a year of information-gathering and meetings with municipal market stakeholders, including professional organizations such as the Government Finance Officers Association and the National Association of State Auditors, Comptrollers and Treasurers, the SEC is soon expected to issue its rulemaking release for notice and comment.

It's time for local government officials to start paying attention.

Given the law's ambiguity on scope, it's left to the regulators to determine the size of market disruption and the relative impact the requirements could have. The coming year will be critical because the details, such as the type of technology to be used, what data must be tagged and how the rollout will take place, will be debated and decided upon.

This playbook is meant to be a resource for municipal finance professionals during the early stages of implementation. Our goal is to give stakeholders the information they need to prepare for the coming wave of change.

Moreover, we hope to remind government officials that challenges can also be opportunities. Much as the pandemic forced governments to adopt new technologies and workplace practices at a record pace, complying with the FDTA has the potential to push governments into more streamlined and user-friendly financial management processes. Those who look for the ways their communities can benefit from data modernization will emerge from this transition stronger and more fiscally resilient.



Getting ready for the FDTA

Like any mandate over issuers of municipal debt, the FDTA comes with a host of challenges. Chief among them is how to equitably apply new data requirements across an incredibly diverse issuer landscape, ranging from tiny rural school districts to [the fifth-largest economy in the world](#).

Without a careful approach, [warned the Government Finance Officers Association](#) along with an array of associations representing state and local governments, complying with the law’s requirements could cost governments upwards of \$1.5 billion for software, consultant services, and staff time. They also worry that some governments will turn more to private sources, such as bank loans, for financing rather than deal with potentially onerous standardized reporting requirements in the municipal bond market.

Advocates, on the other hand, have hailed the law’s passage as a new era of government transparency and accountability.

Under the current regime of PDF files and inconsistent formatting, it is incredibly labor-intensive to get the type of financial information that is typically a few clicks away for the corporate market. This outdated way of extracting data may even be costing governments money: [Research has shown](#) that better financial transparency can reduce borrowing costs in the municipal market – which ultimately benefits taxpayers.

“The FDTA is the logical and necessary progression in the disclosure modernization movement to apply technology to the objective of good government.”

[The Data Foundation in a draft paper for public comment](#)



The FDTA at a glance

Are there new financial reporting requirements?

No, the FDTA does not mandate any new disclosures or other financial reporting requirements for governments. It is solely focused on format requirements.

What does it say about data requirements?

The data standards require that data be:

- “Machine-readable” so that it can be fully searchable.
- In a format that can be easily and accurately processed by a computer.
- Be made available under “open license” format which will reduce barriers for industry, academia, and others to incorporate or reuse the data standards.

Who is in charge of rulemaking?

The Department of the Treasury and the Securities and Exchange Commission are responsible for rulemaking. Rules must be completed by the end of 2024.

Who has to comply?

The law applies to financial statements and disclosures filed with the Municipal Securities Rulemaking Board. Any government entity with outstanding public debt is required to file annually with the MSRB. However, it isn’t yet clear if the new rules will apply to all types of entities filing.

What happens and when?

- The rulemaking process – deciding what data gets tagged and the technology that will be used – runs through the end of 2024.
- Implementation starts in 2027.



The FDTA: year one

In the year since the law's passage, government organizations and other stakeholders have formed working groups to advise the SEC as the commission works with the Department of the Treasury to draft rules. Formerly oppositional organizations like the GFOA have quickly shifted to an advisory role and are now an active voice in the rulemaking process on the behalf of local governments. "This is going to be like climbing a cliff and once we get to the top, we're going to be on the high ground and everything will be okay," said GFOA's government liaison director, Emily Brock. "But we have to be cognizant of that cliff and we can't lose issuers along the way or risk market stability."

A myriad of other stakeholders, from the National Federation of Municipal Analysts to the National Association of State Controllers, Auditors and Treasurers, and even individuals, have also weighed in during the SEC's outreach phase of rulemaking. In addition to capacity concerns on behalf of smaller issuers, participants have touched on the advantages of certain technologies: the process by which the implementation should roll out and the specific financial data that should be required to comply with the new law. The Governmental Accounting Standards Board has even begun working on identifying this dataset, also referred to as taxonomy.

Recommendations: Preparing for implementation

While there is no shortage of opinions – or possibilities – most details are still unknown, and this lack of concrete information has prompted many local government finance officers to adopt a wait-and-see approach to the law. This is understandable, but policymakers and leaders will do themselves and taxpayers a disservice by waiting until the rules are decided upon to begin preparing for the FDTA. Here are some of the steps they should be taking:

Get informed. The notice and comment period on the rules is poised to begin. Local government leaders should pay close attention to the options being discussed and provide feedback, either directly or through their state auditor.

With the SEC guidance soon approaching, local governments should also assess the systems they currently employ to comply with financial disclosure requirements and their ability to adapt their current IT systems to the FDTA, as well as estimating staff time available to assist with FDTA compliance.

Think about how to leverage technology. Even before the data standards and technology are decided, municipal finance officers should consider options for their own path toward adoption. As they do, they should look for opportunities to accelerate existing timelines for adopting new technologies or financial management systems that might ultimately make complying with the new law significantly smoother. Specifically, finance officers should think beyond mere compliance and determine their larger goals for fiscal management and reporting.

For example, Columbus, Ohio, recently updated its financial report-building technology. In doing so, city finance officials saw the opportunity to experiment with creating machine-readable statements.

Auditor Megan Kilgore noted that the software the city chose included [eXtensible Business Reporting Language](#) (XBRL), the computer language used by the corporate sector for tagging financial data. Her office is currently testing out tagging a multitude of data for its Annual Comprehensive Financial Report (ACFR) and other fiscal disclosures to get a feel for what to expect in the coming years and plan accordingly. “Our idea was to look at companies that could not only help us with our laundry list of goals that we had for the production of the ACFR,” she said, “but also companies who could help us grow forward.” This type of forward thinking captures the opportunities presented by the FDTA.

Connect with partners at the state level. For smaller local governments, states and universities, can – and do – play a critical role in supporting the FDTA transition. [Eighteen states](#) have local government financial data reporting requirements, making them well positioned to provide technical support or otherwise act on behalf of local governments to help them comply with the new requirements. In many cases, states provide a template to local governments for submitting data to the state that can be adjusted to meet the FDTA requirements. Florida, for example, gives local governments the option to enter the data online, upload an Excel file or upload a file in [inline eXtensible Business Reporting Language](#) (iXBRL) format. Schools like the University of Denver and the University of Michigan are exploring models for local governments of all sizes to comply with the new law at a low cost or no cost at all.

“Once the taxonomy is developed,” said Christine Kuglin, director of the Truth in Accounting project at the University of Denver’s Daniels College of Business, “once we get some baseline documents and maybe give some free training to city governments – I don’t think it’s as expensive as people are claiming it to be.”

CASE STUDY

How is Ohio helping local governments prepare?

Bob Hinkle, Ohio’s chief deputy state auditor, said his office has been helping cities submit their data to his office in electronic form for years. The auditor’s office has set up its own “Hinkle System” so that it does not have to plow through hundreds of local government PDFs.

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Implementing the FDTA: strategies and challenges

What to expect in the rulemaking process

The SEC’s upcoming notice and comment process will provide the first glimpse into how disruptive the FDTA could be for government issuers.

Smooth implementation will depend largely on the technology chosen and how it addresses both efficiency and potential cost mitigation to local governments and other entities providing financial statements.

Specifically, the FDTA requires that, “to the extent practicable,” data standards for government financial disclosures:

- Render data fully searchable and machine-readable.
- Use clear structures (schemas) and additional information (metadata) that's machine-readable. These structures and information should follow a model (taxonomy or ontology) that explains exactly what the data means.
- Use a taxonomy model that matches the rules set by the regulations on how information is collected.
- Be nonproprietary or made available under an open license.
- Incorporate standards developed and maintained by voluntary consensus standards bodies.
- Use, be consistent with, and implement applicable accounting and reporting principles.

IMPORTANT DATES

By June 2024 (expected):
The SEC proposes the FDTA standards and rules opening notice and comment period

December 23, 2024:
Deadline for release of final rules

2025-2026:
Governments prepare for implementation

January 1, 2027:
FDTA is in effect for municipal bond financial disclosures going forward.

In its October 2023 letter to the SEC, the National Federation of Municipal Analysts [recommends](#) that financial data be “accessible/usable at a scale and in a file format,” including computer language formats such as XBRL, CSV or JSON, that best supports the wide variety of municipal financial data.

The Cato Institute notes that iXBRL can eliminate the need for issuers to file twice (in both traditional PDF form and in a machine-readable document) because the format supports both human and machine readability. An iXBRL file looks like a web page and can include images and advanced text formatting like any HTML document. “Because key data points within the HTML page are XBRL-tagged, they can be easily extracted by the state agency to provide standardized reporting and oversight,” Cato’s senior policy analyst, Marc Joffe, [recently wrote](#). “Ideally, federal and state bodies would agree on a single XBRL reporting taxonomy that would meet the need of both municipal bond investors and state overseers thereby allowing all entities within a given state to meet all of their financial filing requirements by producing a single Inline XBRL instance document.”

Whichever language (or languages) are chosen, it’s important that it is accepted and supported within the technological landscape. Compatibility with existing systems and interoperability with various databases is crucial to seamlessly integrate the FDTA’s requirements into the current government finance infrastructure.

One positive, noted Barnett Sherman, a bond expert and senior managing partner at the Tenbar Group, is that the financial information within government enterprise resource planning systems is already machine-readable; it’s only upon putting together the financial statements that the data is converted into PDF format.

The upcoming draft rules will also reveal the scope of the FDTA – that is, how many core data points will have to be standardized and what types of financial disclosures will be subject to the requirements. The National Federation of Municipal Analysts’ hope is that the taxonomy collected will “encompass all financial statement line items for analyzing a municipal issuer” using the generally accepted accounting principles. The association recommends that all information previously reported and released via PDF should be provided in the new machine-readable format the FDTA outlines.

However, the SEC is required to ensure that governments shoulder as little cost impact as possible, and a backward-looking scope may prove cost prohibitive. Moreover, issuers post more information to the Electronic Municipal Market Access (EMMA) website beyond their ACFRs, with smaller issuers such as charter schools having to post a more diverse set of information, such as budgets and quarterly compliance certificates, on a more frequent basis. The scope of the final FDTA requirements will determine what workflows are implicated and how many tools issuers might need to comply fully.

The role of AI

Artificial intelligence can assist in web scraping by using coded commands to extract data and information from websites and other sources, organizing the information as needed. AI could likely extract demographic information and other non-financial data from voluntary or required disclosures that would be desirable to investors, finance practitioners, and other stakeholders. Companies like [Microsoft](#) already use AI to extract advanced tables, structures, and text from documents, and JPMorgan Chase's [Coin platform](#) can analyze legal documents, saving time and money.

To that end, GFOA, through a pilot program with Rutgers University, is [exploring](#) how artificial intelligence can be used for governments to be in compliance with the FDTA. The pilot, launched last year, feeds data from 10 county governments within one state into a larger, AI-driven learning model. The goal is to accurately and efficiently extract both qualitative and quantitative data, as well as to integrate financial and non-financial data.

The particular challenges of municipal financial data

There are a handful of challenges in standardizing government financial data that the rulemaking process will have to address. In its letter to the SEC, the National Federation of Municipal Analysts raised concerns about how controls will be established following structured data standards. The NFMA also called for the prompt disclosure of these standards to avoid delays in sharing credit and financial information. Additionally, the NFMA is worried about the possibility of governments' data classification (taxonomies) in a universal FDTA platform potentially lacking crucial information for interested parties, such as rating agencies and private investors, that conduct credit and financial analyses.

Moreover, coded data should distinguish the differences between municipal issuers and [“obligated persons”](#) for debt sponsored by municipal issuers. The FDTA requires the joint standards to “include common identifiers for collections of information reported to covered agencies ... which shall include a common nonproprietary legal entity identifier.”

Legal entity identifiers, or LEIs, are unique 20-character alphanumeric codes that identify legal entities that engage in financial transactions. (The LEI system was introduced after the 2008 financial crisis to improve transparency in financial markets and reduce systemic risk.) The NFMA recommends that LEIs be used for categorization and identification of the legal bounds of debt repayment for the relevant municipal issuer. Given issuers' differences in debt repayment, where some governments pledge "full faith and credit" funding while other entities have only a moral or no obligation to repay debts, the NFMA notes that this recommended LEI methodology must be able to distinguish between these obligors.

With government entities having a variety of fund structures and variations specifically encompassing such entities as special purpose enterprise funds, school districts, and airport authorities, clarity from the SEC is valuable in the process of streamlined issuer reporting. These entities additionally post information to EMMA beyond just the ACFR, and smaller issuers such as charter schools may share data more individualistic to their type of entity on a more frequent basis, thus necessitating guidance from the SEC on which workflows are implicated in this financial data integration and how best for issuer compliance to proceed.

Kinney Poynter, executive director of the National Association of State Auditors, Comptrollers and Treasurers, told us that among his chief concerns are the cost burden levied on smaller governments that issue infrequent debt and how much potential there is for state-level financial assistance toward local government in pursuit of FDTA compliance.

Another concern is that some government entities may not file their financials in accordance with generally accepted accounting principles in general. A fully defined scope of reporting and the final requirements as reconciled before FDTA's full implementation in 2027 will determine which standards and data are impacted and how issuers can respond to stay in full compliance.

Regarding the GFOA-Rutgers partnership, Girard Miller, the finance columnist for *Governing* and a former GASB member, levied his concerns during an interview with us regarding who would own or control data once it is uploaded into an artificial intelligence learning system. Though skeptical of the AI aspect, Miller did see issuer-specific datasets to be valuable to investors and public purpose organizations focused on improving the quality of financial management and stakeholder outcomes.

Unintended consequences are also a concern among regulators and municipal market investors. In [a speech](#) at the Data Foundation's RegTech 2023 Data Summit, SEC Commissioner Hester Peirce laid out her concerns that a "bungled" FDTA rollout could lessen financial data disclosure by issuers who voluntarily release their data at regular cadences. Peirce pointed toward a potential reduction in voluntary filings, avoidance of costs in reporting structured municipal data, and a potential "exit" of securities markets if costs are high enough. In line with Peirce's remarks, the NFMA recommends that the aforementioned data standards must address the required and voluntary disclosures to the MSRB and SEC.

In that context, Columbus’s Megan Kilgore reminds us that the FDTA is not a catch-all solution to more timely government financial data. The law applies to published financial statements but has no bearing on the length of time that it takes to build, write, and audit those statements before they are filed. In fact, there are many who worry that the FDTA may slow down the filing process further. “At a minimum, it’s not going to change the existing challenges governments face with financial reporting timeliness,” Kilgore said. “That type of distinction is really, really important and I think that's what has been missed by this conversation. Until such time that governments are really held to that obligation to get their financial statements done in 120 days, universal access to timely data is not going to happen.”

CASE STUDY

Modernizing financial management systems for today’s workforce challenges

While the FDTA may appear to demand more staff labor and compliance, some local governments have treated the law as an opportunity to modernize their financial management systems.

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The long-term benefits of democratizing financial data

The responsibilities of local governments have expanded over the decades, even as their rights and control over their finances have been increasingly constrained by state government mandates and taxpayer referendums. The local governments of today are more than just service providers. Through public schools, transit, parks, health departments, and law enforcement, they are tasked with providing a foundation for their constituents' health, safety, and prosperity.

While the FDTA deals only with financial statements, it has the potential to help governments make progress on some of today's thorniest problems.

Many localities – even those that seem to be thriving – have a structural deficit thanks to retirement system legacy costs, delayed infrastructure maintenance, or deferred investment. Unchecked, these legacy costs can weigh down future budgets and limit the ability to provide necessary services. More recently, extreme polarization in national politics has unfortunately seeped into the relationship between local officials and residents. This has eroded trust and in some cases made it harder for public servants to do their jobs effectively. Adding to that strain is the fact that many local government departments are understaffed, leading to slower response times and delays in everything from processing public assistance applications to late financial reports.

When public dollars are managed well and with accountability, policymakers have better options. Local leaders who view the new reporting requirements as a way to test new ideas or accelerate longer-term goals for financial transparency and management are not only likely to see a smoother path to FDTA compliance but also are giving themselves an opportunity to make more informed decisions about how to spend taxpayer dollars and ultimately improve relations with constituents.



Fiscal balance and performance management

Good financial management leads to more effective community outcomes

“This project ultimately is about improving community’s quality of life because as local fiscal information becomes more available, a greater number of stakeholders will have eyes on the data and be able to act on potential problems long before they turn into crises.”

Tom Ivacko, CLOSEUP Executive Director, at XBRL project launch

The big legacy costs weighing on governments – namely, pensions and infrastructure – are in part the result of failures in government financial reporting. It wasn’t until new governmental accounting standards were introduced requiring that government-wide financial statements include asset depreciation and, more recently, unfunded retirement costs that these long-term burdens began getting the attention from policymakers that they deserved.

The FDTA can have that same transformative effect on government financial reporting because it will make the data in those reports more accessible, workable, and comparable to other places.

Anyone who has worked with government financial data knows that the majority of the time commitment is simply the process of collecting the desired information from PDFs. But the real work – the value for taxpayers and policymakers – is in analyzing that data. When it takes too long to understand and contextualize the financial data, government leaders miss out on ways to make decisions that help to produce positive outcomes. Put another way: If you can’t measure it, you can’t manage it.

With structured, or “tagged,” financial data, the analysis can start almost immediately. This has particular significance for performance measurement. While many agency heads can track their real-time spending against desired outcomes, conclusions from that analysis aren’t typically framed in the overall context of government spending. But a finance director working with tagged data can quickly drill down to specific spending data, determine how it fits

within the broader picture of the government-wide balance sheet and – critically – benchmark that against other cities. “I see this allowing me to pull data quickly and have more tools for benchmarking to show the mayor or county executive what are our financial trends and pitfalls,” said Robert Widigan, the chief deputy financial officer of Wayne County, Michigan, who formerly served as CFO of the city of Flint.

If a city budgets more for police training to improve public safety outcomes, it’s not too big a lift these days to determine whether more money was actually spent and how that compared to what was budgeted. It’s a much bigger lift to determine matters such as how that expenditure affected the overall public safety budget and general fund budget, and how that might compare with other neighboring localities or similar-sized cities across the country. Large jurisdictions might have the resources to do so and academic researchers might have the time, but smaller cities usually don’t have either.

From big cities or medium-sized cities to small hamlets and townships – they all want to know that when they’re in difficult budgetary times, that they’re using their funds effectively and efficiently,” said Barnet Sherman, the Tenbar Group senior managing partner. “They want to know that their programs are providing the services their community needs in the best way.

CASE STUDY

Flint, Michigan, jumps ahead with machine readable statements

How the University of Michigan’s Center for Local, State, and Urban Policy (CLOSUP) worked [with Flint](#) to convert ACFR.

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Transparency lowers costs and promotes trust

Issuers intuitively know that financial transparency fosters relationships. It’s why so many of them developed investor websites in the years following the Great Recession and the collapse of the bond insurance market. Allowing potential investors greater access gives them more security in what they’re purchasing – and a lower price for the issuer.

Over the years, multiple studies on municipal bond market transactions have indicated that states and localities are potentially paying billions of dollars each year in unnecessary fees, transaction costs, and interest expense due to the lack of both transparency and liquidity in the municipal bond market. [A study in 2018](#) found that costs for issuers went up when local newspapers closed because a critical information source and watchdog was no longer around.

Due to the time-consuming nature of government financial data gathering, and the opaqueness of the municipal market as a whole, access to sophisticated data analytics has a high price point.

These barriers have enabled [complex solutions that are expensive to license and difficult to learn](#) to act as a formidable barrier to understanding and working with public data. When fully implemented, the FDTA will significantly lower this barrier to entry and increase transparency by democratizing access to government financial information.

This has obvious advantages for investors and researchers, but it's also a benefit to state auditors responsible for tracking the fiscal health of localities. States including Florida, California, New York, Ohio, and Pennsylvania have either fiscal distress monitoring systems or take an otherwise active role in compiling the data in localities' annual financial reports. "There are a lot of advantages to the states to have this information in electronic format, especially where the state auditor has to monitor fiscal stress," notes Kinney Poynter, the executive director of the National Association of State Auditors, Controllers and Treasurers. "The whole idea is comparability and ease of analysis – to spot problems before they become huge."

Increased transparency sends the message to constituents that governments have nothing to hide

Building trust through transparency is already a well-worn tool in many finance officers' toolkits. That's clear from the multitude of open-data websites, dashboards, and checkbooks that states and localities have launched over the past decade in response to growing demand for access to real-time government data. In this sense, the FDTA is one more step in what has been a decades-long trend.

Looking ahead, Columbus's Megan Kilgore sees a world where constituents have access to more sophisticated services. "Imagine in five or six years' time when engineers, landscape architects, wastewater recycling, tech firms will all have access to this data and they'll be able to build better products as a result of that knowledge," she says. "I'm really, really excited about that."

The FDTA could ease the workload on public finance staff

Headlines about the "Big Quit" may have subsided, but local governments continue to struggle with staffing shortages. While hiring has picked up, so too have quits and retirements, and this has dramatically slowed public-sector job recovery. In fact, more than half of state and local governments expect their largest wave of retirements to occur in the next couple years, according to the most recent [workforce survey by the MissionSquare Research Institute](#).

The loss of institutional knowledge has hit finance departments especially hard. [A 2021 study by the National Association of State Treasurers](#) found that 60% of public finance workers are over 45 while less than 20% are younger than 35. The brain drain for finance departments is coming at the worst possible time as federal grant funding has created even more financial reporting duties than ever before. The crush of demand and shrinking supply has started to take a toll as an increasing number of local governments are falling behind on publishing their ACFRs. Combined with the very practical fact that policymakers need audited financial data to make informed spending decisions, [this lag in financial reporting](#) threatens to translate into more costs for governments.

Local government vs. total workforce job recovery

“It took more than twice as long for local government employment to recover from the pandemic compared to the private sector.”

The St. Louis Federal Reserve current employment statistics

It's no wonder that most local government finance officers we spoke to have viewed the FDTA warily as one more federal requirement thrust upon them. Few have had the time to research its implications, much less begin strategizing their approach.

It will require getting used to, notes Robert Widigan, the former Flint CFO. But complying with the FDTA in the next few years can play a role in ultimately easing the workload of finance department staff. Finance officials who use the required shift to machine-readable reports as an opportunity to re-evaluate or modernize their financial management systems could ultimately save staff time and protect data accuracy by automating certain processes.

“In Flint, there was that time burden, but that's the cost with any change – it's going to take time to learn it and get through that,” said Widigan, referring to their process for tagging the financial data. “But it's a one-time cost because once you do that, the next year it's just automatic We spend a lot of dollars on people helping us build our financials – think about what this new way could save us.”

Beyond easing the burden on current staff, the FDTA has important implications for recruiting the next generation of public finance officers. Public policy school graduates today grew up in a world where technology and data-gathering is integrated into daily life, from apps that track sleep cycles to trading in digital currency. Surveys have shown that Millennials and Gen Z workers [are highly motivated](#) by purpose-driven work. Those who do choose the public sector are often driven by belief in an agency's mission or the chance to become a part of something bigger than themselves. But working in government today can mean dealing with outdated technology, bureaucracy, and limited resources, and may [ultimately drive away](#) otherwise motivated workers.

Modernizing the way we access government financial data counteracts these stereotypes and brings this aspect of government information up to the standards expected by younger generations. As the University of Denver's Christine Kuglin sees it, having more understandable and workable data opens up the world of government finance and public service to this more tech-savvy generation.

“In the classroom, I'm standing in front of a generation of people who are going to become our future taxpayers, accountants, citizens, decision makers,” she said. “We need to make sure that the information we're presenting is modernized and easily accessible, easily benchmarked, and gets them interested in their state and local governments. It's critical.”

Conclusion

The FDTA is the single biggest change for government financial reporting in a generation. But governments have been through similarly difficult transitions and have come out better on the other side. More than two decades ago, the Governmental Accounting Standards Board implemented a rule requiring governments to show the cost of their depreciating infrastructure assets, and there were scores of detractors. In fact, the Government Finance Officers Association’s executive director at the time [contended](#) that the requirements “fail to provide information of any practical value to governments, citizens or investors.”

Instead, the requirement revealed just how little governments had been investing in their infrastructure maintenance and helped spur a national conversation around our infrastructure deficit. We still have a large infrastructure deficit. However, for taxpayers and local government officials, gaining more clarity and uniformity around that financial data helped build consensus around the need for investment.

The FDTA has this same potential, but local leaders and finance officers should not sit back and wait for others to determine their fate. They can take a cue from some of their counterparts in this playbook and reach out to their state auditors, consider how their current processes and systems may (or may not) be adaptable to the new reporting requirements, and – most importantly – they can make their voices heard at the federal level.

CASE STUDY

How is Ohio helping local governments prepare?

A chief concern among local governments is that they won't have the capacity or appropriate resources to implement the FDTA's requirements by the deadlines imposed in the next few years. In Ohio, the state auditor's office hopes to head that off at the pass through its Local Government Services Division. The LGS assists government agencies, school districts, and political subdivisions with consulting and fiscal advisory services, including help with preparing generally accepted accounting principle and cash-basis reports, financial forecasting, record reconstruction, and fiscal distress/recovery mitigation.

The state of Ohio offers a potential path forward with its Hinkle System, an application built by the state auditor's office that allows for specific financial, debt, and demographic information from financial statements to be keyed in to the state's software system, producing required statewide reporting and increasing uniformity across localities' financial statements. LGS' Web GAAP software is designed to help local governments convert year-end cash basis information into a financial report that conforms to GAAP standards. Ohio's legislature recently passed House Bill 33, allowing the office to use the newly established Auditor's Innovation Fund to improve and assist these entities with services including audits and accounting. House Bill 33 also permits feasibility studies by a delegated agency or local public office given approval by the auditor's office.

Columbus, Ohio, City Auditor Megan Kilgore spoke in late 2023 during an XBRL US conference in

Washington, D.C., of her passion for local governments owning their own data, pointing to her own state's localities holding ownership over their data yet having the ability to use the statewide system to automatically generate their financial statements. Ohio Chief Deputy Auditor Robert Hinkle, echoing the National Federation of Municipal Analysts' FDTA recommendations letter to the SEC outlining the need for accessible and usable data standards in multiple file formats, notes that the state would "need to significantly expand their capabilities to implement the XBRL system." Given the state's existing Hinkle System and Hinkle's comments, Ohio seems likely to have a lower bar for entry to FDTA compliance given the law's mandate that data be rendered fully searchable and machine-readable.

And given the existing structure of support provided at the state level to local governments and issuers, Ohio governments are well positioned for adoption and integration of the FDTA and its provisions. These state and local partnerships, which include assistance with financial reporting compilation and preparation, consulting, and fiscal advisory services, demonstrate what success and efficiency look like in practice. This approach should serve as a model for other states and their auditors, given recognition of the staffing shortages and constraints across key players affecting the process of financial disclosure.

CASE STUDY

Modernizing financial systems for today's workforce challenges

Local governments have yet to recover their pre-pandemic workforce, and this staffing crisis is already having an impact on performance and credit quality. [Last year](#), S&P put more than 149 local governments on credit watch for not producing their 2021 Annual Comprehensive Financial Reports more than two years after the fact and ultimately withdrew 64 of those ratings. So when it comes to complying with the FDTA and learning a new system, some government entities are understandably worried about capacity.

A contributing factor to this situation is a shortage of auditors and an abundance of risk aversion on the part of auditing firms to take on government clients. Public sector audits take on average one to three months longer than those for private firms and become increasingly difficult given already short-staffed public auditor offices and requirements for state auditors needing to sign off on local government audits. Small and mid-size governments lack adequate staffing that could assist in these efforts, and with the influx of federal funding and the FDTA's passage, it is worrisome that these issuers cannot adapt quickly enough.

Admittedly, FDTA compliance may overextend staff capacity in the short term, with some entities lacking enough staff to aid in a speedy transition. Ohio Chief Deputy Auditor Robert Hinkle spoke in late 2023 during an XBRL US conference in Washington, D.C., of the need for his state to “significantly expand their staff’s capabilities to implement the XBRL system.” With Ohio at an advantage already due to software systems in place similar to

those needed to meet the FDTA’s compliance demands, even understaffed Ohio governments may be better positioned than those in other states.

While the FDTA may appear to demand more staff labor and compliance, some local governments have treated the law as an opportunity to modernize their financial management systems – and gain back staff time in doing so. Mary Martin, assistant debt manager for the city of Charlotte, North Carolina, shared that upgrading the city’s debt- and lease-management system saved it from all the manual data entry that her staff had been doing before. It’s especially a time-saver when doing annual disclosure filings. “For example, to run a report that shows all the city’s COPs [certificates of participation] outstanding, I used to have to pull five or six different reports and enter the information into a spreadsheet myself. Now it’s just a matter of pushing a few buttons.”

Key provisions of the FDTA outline how federal agencies and departments will implement data standards through joint rulemaking, and just as state and local governments, given Ohio’s example, have the opportunity to work together, federal alignment will be transformative once fully compliant to local government reporting. Due to the hurdles of engagement with a multitude of agencies, streamlining financial reporting demands upfront costs of time but will pay dividends following full compliance. The local government staffing crisis will likely remain an issue for years to come, but the FDTA presents a long-term solution to ease demands on staff time and allow for more flexibility for current government staff.

CASE STUDY

Flint, Michigan, jumps ahead with machine readable statements

Any financial analyst or professional in local government will tell you that the one thing they need more of is time. Larger municipalities may have the advantage of more staff capacity, but local governments are putting out fires more often than they're able to stop and plan for their municipality's financial future. The FDTA has the potential to help with that by enabling governments, citizens and investors to more quickly tap into what's really going on under the hood of their local government.

Flint, Michigan, is seeing this transformation happen in real time. The city is on the cutting edge of digital financial data standards, following the announcement of the city as a participant in a pilot program led by the University of Michigan's Center for Local, State, and Urban Policy at the Gerald R. Ford School of Public Policy and XBRL US, a nonprofit standards organization, to transform paper-based financial statements and footnotes into machine-readable data. XBRL (eXtensible Business Reporting Language) modernizes and digitizes municipal financial reporting, benefiting the city in sharing public data with the public, the state, and other interested parties.

This pilot program provides Flint with the tools and support needed to render easily readable and searchable financial information in its Annual Comprehensive Financial Reports, as well as two other reports specific to the state. Former Flint Chief Financial Officer Robert Widigan said the assistance the city received from the state was crucial in this pilot program.

Widigan also identified this process as allowing the city to "tell our story" of local fiscal health, especially focused on "transparency and better governance," to the greater public.

Governments like Flint's have long struggled with providing ease in financial reporting transparency to interested parties. With data from audits being released in a PDF format generally, this data is not easily translatable for researchers, freedom of information requests, and other uses. Implementation of XBRL in local governments furthers the goal of interoperability between sectors and promotes marketplace adoption. Through this partnership, Flint is on its way to be ahead of other localities in financial reporting while also demonstrating that this process does not have to be challenging and all-encompassing. This effort is not cost-consuming and demonstrates that governments can partner with state, regional, and local universities and other institutions to pursue innovation without much additional staff capacity dedicated to these transformations. With government issuers needing to be compliant with the FDTA by the end of 2026, Flint's success shows that local governments can make this transition smoothly.

This approach, in line with the FDTA and its standards, helps address key concerns of compliance and reporting issues, utilizing external capacity to assist local governments and free up availability for existing staff.

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