



WHITE PAPER

# Understanding the FDTA: Modernizing & Streamlining Financial Reporting For Local & State Government

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## Understanding the FDTA: Observations from Former Kansas City Mayor Funkhouser

“If you don’t take care of the money, you can’t take care of the people. Things are going to go wrong and people are going to get hurt,” Mark Funkhouser said at the Data Foundation’s [RegTech 2023 Data Summit](#) on April 11th.

Mayor of Kansas City from 2007 until 2011 and now a consultant at the firm he founded—Funkhouser & Associates—he praised the [Financial Data Transparency Act](#) (FDTA) as a good idea that carries powerful implications for improving processes and restoring trust in state and local governments.

Modernizing and streamlining financial reporting data by state and local governments will require an enormous effort, he said, but these efforts will pay dividends in better data, more resilient systems, and new opportunities for officials to make good on their election promises. “There is a direct connection,” he said, “between the quality of financial reporting and community conditions.”

Until ten years ago, Funkhouser noted, governments were not required to include pension liabilities in their financial statements. As the saying goes, what gets measured gets managed, and too often pension liabilities were neither measured nor managed. As a result, today’s cities and states are finding that enormous, unfunded pension liabilities are a serious drag on their budgets.

The city of Chester, Pennsylvania, is a case in point. In late 2022, this small city outside Philadelphia filed for [bankruptcy](#) because of a high deficit and \$430 million in mostly pension and retiree healthcare liabilities.

The message that Funkhouser underscored is that financial accounting is not “abstract, weird stuff.” He linked unfunded pension liabilities and crumbling infrastructures to the financial accounting practices of

state and local governments. “Your bridges are falling down,” he said, “because your financial statements are lousy.”

Or to flip the situation and accentuate the positive: Improving financial statements is a way of “improving the quality of life for your residents,” he said. Instead of fighting the FDTA, taking the time to improve the quality and usefulness of financial data will provide CFOs, mayors, city managers, and outside accountants new ways to get a handle on finances and start identifying future problems before they metastasize.

## A Perfect Storm

Most government servants have a sincere desire to improve the lives of their fellow citizens, maintained Funkhouser.

“When I interview mayors, I ask them: ‘So why did you run for office?’ It’s usually pretty lofty stuff. But if you want to do that stuff, financial data is the lifeblood of your community,” he said.

Having begun his career as a social worker, Funkhouser decided to get an MBA only after realizing that overseeing and managing money wisely was the path to achieving societal goals.

This is especially true today, given the number of serious challenges that state and local governments are grappling with. Whether it’s decaying infrastructure, a shortage of skilled employees, or even a need to modernize aging financial and recordkeeping systems, the challenges are not easy to address.

“State and local governments, but particularly local governments, need a lot of help,” he said. “Even the ones you think are doing okay, if you talk to the CFO for a while, he or she tells you they’re repaving streets that ought to be rebuilt.”

In areas enjoying fast growth, like Texas, he described financial management as a type of “Ponzi scheme” because municipalities are running off unsustainable growth rates. When the boon times stop, the trouble starts.

On top of that, there is a worsening employment shortage—and the consequences of this shortage are growing. A March 14, 2023, [Bloomberg](#) article titled “Cities’ Credit Ratings Are at Risk Because There Aren’t Enough Accountants” revealed that S&P has placed 149 U.S. municipalities on a negative credit watch for failing to submit 2021 financial statements on time.

“Hiring and staffing issues in local government right now are absolutely overwhelming,” said Funkhouser. In conversations, mayors and CFOs, he added, practically always cite hiring and retaining employees as their greatest challenge.

## Benefits the FDTA Will Bring

On December 23, 2022, President Joe Biden signed the FDTA into law. By amending existing securities and banking laws, the FDTA will make the mountains of important information reported to financial regulators electronically searchable. Critical financial reporting information will no longer be buried in a variety of formats from paper to PDFs and plain text documents.

For more information on the implications of the FDTA, see DFIN’s white paper [“FDTA: The Dream Realized.”](#)

The timeline for the FDTA is lengthy in keeping with its ambitious scope. Final implementation will not take effect until 2026.

“The benefits” from the FDTA, said Funkhouser, “are increased transparency.” He continued: “Through increased transparency, there will be more eyes on the financial statements and more chances that things that are going wrong will get caught in time to get fixed.”

In a paper titled [“Why Governments Shouldn’t Fear a New Era of Financial Accountability,”](#) Funkhouser pointed out that before Covid-19 hit, Congress was doling out more than \$1 trillion a year to states and local governments to support their role in the federal system. In the last three pandemic years, the federal government has doubled its overall contributions, adding another \$1 trillion annually in direct aid, grants, and tax credits.

It may be no coincidence, suggested Funkhouser, that the FDTA gained momentum and was passed by Congress in late 2022 --- once the federal government had time to zero in on its own demands for doubling its financial investment in state and local governments. No matter the reason for the FDTA’s swift passage, wrote Funkhouser, “the feds are calling in their chips and requiring a new brand of financial accountability from states and localities.” In other words, as he told participants at the RegTech 2023 Data Summit, “Local governments are going to be more dependent on the federal government and that’s going to come with strings.”

## Start Fixing

The FDTA promises some clear benefits over the current state of affairs. In a 2023 publication titled [“Sustainable State and Local Budgeting and Borrowing,”](#) the Volcker Alliance wrote: “State and local governments’ financial disclosures are mostly a look in a rearview mirror.... The implications of current-year budget choices are often at best misunderstood and at worst ignored for short-term benefit.”

Funkhouser has been advising state and local governments to start informing themselves about the requirements for transitioning their current financial reporting to a machine-readable format.

One starting place is with organizations that have already begun the journey.

The [Center for Local, State, and Urban Policy](#), for instance, has partnered with [XBRL US](#) to see whether governments can create their own machine-readable financial statements.

Getting on board with the FDTA early is Funkhouser's central piece of advice.

The implementation period for the FDTA will span the next few years, offering plenty of opportunities for input and comments. Funkhouser urged state and local governments not to "sit back and wait for the powers that be to determine their fate." In other words, he wrote, "Stop worrying and start fixing."

In the end, the FDTA has the potential to help government officials fulfill their campaign promises and be seen in a more positive light.

"The erosion of trust in government right now at the local level is just huge," said Funkhouser, adding: "Trust is the essential glue in government that makes everything work." The FDTA holds the potential to make the inner workings of government more easily and more widely known— and better respected, too.

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