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Can Standardized Financial Data Help Government Save Money?

A pair of states and the feds are moving to require local governments to submit financial data in a machine-readable format. Here's how it could help cities.

What would happen if the thousands of local governments in the U.S. took their financial information — largely available in PDF format — and put it all in a standardized, machine-readable format?

It would make it a lot easier for citizens, businesses and governments to look at the spending habits and fiscal health of the public sector, for one. According to one line of thinking, it might even reduce the amount that government pays for big bond-funded projects like park and road construction.

Before long, the state of Florida will find out for sure. And the state of California, as well as the federal government, might follow suit.

Florida's governor signed a bill last year that puts the state on a path to requiring its local governments to submit their financial information to the state in eXtensible Business Reporting Language, or XBRL, by September 2022. A similar bill sits on the desk of California's governor, and U.S. legislators are considering two bills that could push along standardization at the federal level.

"An annual corporate financial statement is a good analogy to a local government financial statement, so it's a technology that has a precedent in U.S. regulation," he said.

As government modernizes its technology and seeks to do more with its data, efforts have emerged in several areas to standardize data. For example, Mobility Data Specification, SharedStreets and General Transit Feed Specification have helped governments better use transportation data.

There are quite a few reasons to standardize.

"It allows you to streamline submission and reporting processes, allow for closer to near-real-time information exchange, which could accelerate traditionally slow processes," said Jim St. Clair, chief technology officer for Dinocrates, a company that Florida has chosen to help develop the XBRL standards for its new financial reporting system. "It gives not only the government, but businesses and consumers, greater information to support transactions and processes, as well as analytics, on values and efficiencies and current accounts and lay the foundation for perhaps new processes like an electronic tax reporting system that currently doesn't exist."

It might also make it easier for states to identify troubled local governments and intervene before their financials spiral out of control.

But when it comes to government financial data, there's another very specific reason Joffe wants to see everybody agree on one machine-readable standard: municipal bonds.

Those bonds, which act as a major funding source for the building of parks, roads, schools, water

infrastructure and many other things across the country, are a huge investment market: Governments in the U.S. issued about $3.8 trillion in bonds in 2018. When considering buying a bond, investors will turn — as they would with any other kind of bond — to the credit rating of the government issuing it.

But there's a problem with that. According to Joffe, who has conducted research on the matter, government bonds are often a safer investment than their credit ratings suggest.

"If you have a municipal bond and it's rated AAA, it's actually much safer than a corporate bond … with the same rating," he said.

In investing, reward reflects risk. So the riskier a bond is, the more money the bond issuer pays for the capital they're receiving.

So in effect, Joffe is saying that government pays more than it should for bond-funded projects. That being the case, making the financial information of governments available for investors — rather than just the credit rating — might just help the public sector lower the cost of serving citizens.

"If that theory is correct, that means that [with better data], more people would be more comfortable with lower-rated bonds," Joffe said.

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