

From: Mary Pat Campbell
To: GASB Director <director@gasb.org>
Subject: Project No. 3-25

Letter of Comment No. 010
File Reference: FR2
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Dear Director Bean,

I want to start off by thanking the Governmental Accounting Standards Board for the steps it has taken to improve the financial transparency of government finances at the state and local levels. I'm further encouraged to know the Board is in the process of hearing comments on Project No. 3-25.

I am Mary Pat Campbell, a resident of New York who works in Connecticut, and I have been long interested in public finance (and particularly public pensions). I have written about these topics in several venues, and I've done my own analysis of CAFRs and similar financial reports. My own background is as an actuary in life insurance and annuities, with an extensive understanding of their valuation and accounting. In the insurance field, regulators have been development advancements in making sure liabilities are properly accounted for, and that the matching of revenues and expenses are appropriate in patterns. Similar to pensions, these are very long-term commitments, and recently the FASB announced an Accounting Standards Update that has modernized some of the approaches in accounting for these long-term promises. Similarly, the main insurance regulatory group, the NAIC, has been updating its approaches to reserving and capital measures.

Of course, the aims of FASB are to provide appropriate information to shareholders, to try to reduce the principal-agent problem. The NAIC's focus is on protecting policyholders and the promises made to them. GASB somewhat balances these two -- one needs to make sure the commitments made by governmental entities are measured such that people like pensioners are protected. At the same time, GASB focuses on information appropriate for taxpayers (and politicians) to make a proper evaluation of how the financial state of the government stands. Given what I see in the states in which I live and work, and the other states and municipalities I've studied, I believe it is imperative that GASB take the lead and shine a light on the long-term costs that are often obscured from public view. Both taxpayers and retirees may find themselves in danger.

While I believe one of the proposals in the preliminary views document, the "Statement of Short-Term Financial Resources Flows," is valuable and a step in the right direction, it will be incomplete and misleading without a full-accrual approach. As it stands, this proposal would not paint a complete picture of a state's general fund finances because it does not include the largest expenses: the compensation costs associated with pension and other post-employment benefits. Without knowing the full scope of these costs and accruing long-term liabilities, it's impossible to determine whether a state's general fund is balanced without pushing current costs onto future taxpayers. As we saw with Detroit, sometimes the future taxpayers do not show up, in which case pensioners can find themselves getting less than they originally expected.

The proposal also allows legislators to validate a budget that includes loan proceeds as revenue and excludes costs that weren't paid in the respective year. With incomplete and misleading information, policymakers will continue to make ill-advised financial decisions that have major repercussions for those who ultimately will be responsible for the bill when it comes due: the taxpayers, including future generations of taxpayers. It may also make municipal bankruptcies more likely, in which case, pensioners can be damaged.

I strongly believe that in addition to the "Statement of Short-Term Financial Resources Flows", a general fund balance sheet and income statement prepared on a full accrual basis are essential.

Thank you.
Sincerely,

Mary Pat Campbell
North Salem, New York