

From: James Spiotto
Sent: Tuesday, February 12, 2019 12:39 PM
To: GASB Director <director@gasb.org>
Subject: Project No. 3-25

Dear Director Bean,

I am and I know others in the municipal market are pleased with the steps taken by the Governmental Accounting Standards Board to improve the financial transparency of government finances at the state and local levels. We're further encouraged to know the Board is in the process of hearing comments on Project No. 3-25.

As you know I have spent a significant part of my professional life dealing with financially challenged and sometimes distressed State and Local Governments. It is essential that our elected officials have available to them all of the information to help them detect and understand the true liabilities they are facing both long term and short term. Too often, off balance sheet liabilities arise and threaten not only the current provision of essential services at a level desired but in significantly distressed cases threaten the survival of the government. For example in dealing with affordable pension and OPEB issues a full accrual balance sheet is extremely important especially if increase benefits or reductions in contributions are being considered. The sustainability of the Pension or OPEB obligations can only be viewed appropriately in considering full accrual balance sheet and statement of activities.

This more inclusive statement of liabilities and costs permits the government official to consider all accrued liabilities when choosing alternatives and options. The unavailability of the full accrual information can lead the elected official to permit liabilities or not prepare for liabilities that would have made a difference in the decisions made and the results obtained. I believe elected officials, taxpayers and bondholders appreciate the benefits of the full accrual approach which prevents the unfortunate surprises of certain other limited or shorter term reporting of financial liabilities and costs. As you know virtually every state and the local government has a balanced budget requirement and the full accrual approach is in keeping with the historical purpose of budgeting. In the past state and local governments have done a noteworthy and commendable job budgeting as demonstrated by the low rate of municipal debt defaults and Chapter 9 filings. Now given the increasing legacy costs (including pensions and OPEB) and aging of infrastructure costs due to deferral of needed improvements, it is now important to consider additional tools to help focus and direct attention to those financial and accounting issues that in past decades may not have been so developed or critical.

The history of state and local governments balanced budget requirements should support the addition of the full accrual balance sheet and statement of activities so that funding of essential services are not crowd out by other legacy or unanticipated liabilities. The problem with deferred costs and liabilities is that they may surface at precisely the wrong time without proper planning and budgeting. The full accrual approach helps all parties of interest to better anticipate and plan for these costs and liabilities and may well prevent the shock of a hard landing due to lack of previous specific disclosure. This can be especially acute in relation to pension and other post-employment benefits.

As you know the general fund balance sheet does not include these liabilities with the completeness and clarity of full accrual. Therefore, the general fund balance can indicate to elected officials that they have met their government's balanced budget goal while having significant liabilities deferred or yet to be reported and not appropriately considered. The use and addition of full accrual approach appears a

reasonable and fair means of protecting the budgeting interests of state and local governments, taxpayers, bondholders and the general public good.

It is important to know, budget, plan for and disclose all the costs incurred. While there appears some value in providing a "Statement of Short-Term Financial Resources Flows", it is also just as important if not more so to have a long-term, full-accrual perspective, so everyone can fully appreciate the financial situation.

I believe it is essential for a full-accrual balance sheet and statement of activities to be prepared and this should help to provide a complete picture of the results of state and local governments' budgets.

Thank you for your consideration of this and the excellent work that you all have done over the years. Your work is appreciated and valued by all of us who are involved in the government financial markets. This statement is solely the views and opinion of James E. Spiotto personally and is not in any way the view or opinion of Chapman and Cutler LLP or Chapman Strategic Advisors LLC.

Sincerely,

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