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David R. Bean  
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January 11, 2021

Attention: Project Nos. 3-20 and 3-25

Dear Director Bean:

I have spent the bulk of my career advocating for consistency and transparency in public- and private-sector financial reporting. I am a former Securities and Exchange Commission and Congressional staff attorney; I founded the Data Coalition, which advocates for data standards such as the eXtensible Business Reporting Language (“XBRL”) to make financial statements electronically comparable; and I wrote initial versions of the DATA Act of 2014 and the GREAT Act of 2019, which require the White House Office of Management and Budget and the Department of Health and Human Services to adopt a standardized data format for all financial statements reported by recipients of federal grants to the federal government under the Single Audit Act. Under these mandates, OMB will issue guidance by December 30, 2022, requiring any municipal government receiving more than \$750,000 in federal grants in a given fiscal year to report its audit package, including its Comprehensive Annual Financial Report (“CAFR”) to the Federal Audit Clearinghouse in a standardized data format such as XBRL.

However, I am writing as a candidate for an at-large city council seat in Joliet, IL, in the April 6, 2021, consolidated elections. Like many municipalities, Joliet faces significant long-term liabilities related to post-retirement pensions and health care benefits for its employees. In particular, Joliet’s public employee retiree health care liability was expected to exceed \$580,000,000, greater than that of the City of Chicago in absolute terms, and in per-capita terms by far the worst of any municipality in the state.<sup>1</sup> Joliet’s voters deserve to understand how their city’s finances have been mismanaged and that their government must prioritize growth and restrain spending, especially in decisions about employment benefits.

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<sup>1</sup> Memorandum from outgoing city manager Steve Jones to Joliet City Council, August 25, 2020, available at [https://joliet.mycusthelp.com/WEBAPP/\\_rs/\(S\(4wqki3sclnu3yf34zd0xerx\)\)/RequestArchiveDetails.aspx?id=13098&view=1](https://joliet.mycusthelp.com/WEBAPP/_rs/(S(4wqki3sclnu3yf34zd0xerx))/RequestArchiveDetails.aspx?id=13098&view=1), at page 7.

I appreciate the opportunity to provide comment on two Government Accounting Standards Board's ("GASB") exposure draft statements: Recognition of Elements of Financial Statements (Project No. 3-20) and Financial Reporting Model Improvements (Project No. 3-25).

Unfortunately, both exposure drafts would be harmful to transparency for my city's finances if approved.

These proposals offer new, subtler ways for local governments to conceal liabilities and financial weakness from their constituents. In particular, Project No. 3-25, by adopting a method labeled "the short-term financial resources measurement focus and *accrual* basis of accounting," would permit local governments to ignore long-term debt when calculating and reporting fund balances. Worse, local governments would be able to use the term *accrual* in their presentation of fund balances - a term whose common meaning in private-sector accounting will suggest to constituents that long-term liabilities have been taken into account. If this draft statement is implemented, funds whose long-term outlook is poor will appear healthy to anyone who is not a municipal finance expert, even sophisticated private-sector accountants.

In short, these drafts "seem to provide incentives for ... local governments to behave in ways deleterious to sustainable public fiscal positions"<sup>2</sup> and must be rejected. While I praise GASB for requiring long term liabilities to appear on the government-wide statements, it is my impression that GASB must not understand that governments do not budget at the consolidated level. They budget at a fund level. If these proposed statements are accepted, and if I am elected to the Joliet City Council, I intend to publicly note the misleading nature of the funds statements GASB GAAP would require when considering city budgets. In addition, if possible, I will introduce resolutions directing city staff to publish notes alongside city financial statements identifying general fund long-term liabilities hidden by the implementation of these standards. In such a circumstance, it must be clear to my constituents, bond investors, and the profession that GASB's decisions have resulted in fund financial statements that are less transparent than they otherwise would be.

Public officials and candidates who want to address long-term liabilities long-ignored by their predecessors face many obstacles. They must convince the beneficiaries of overspending to accept reduced benefits, ask constituents to accept higher taxes and fees, or both. Politicians who suggest revenue increases or spending restraint, even when fiscal responsibility requires them, are often criticized and removed from office. GASB ought to consider that its own standards may present an additional obstacle to reform by softening the urgency that fiscal conservatives need their constituents to understand, or by emboldening those officials who seek to delay painful reckoning.

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<sup>2</sup> Letter from Mary Pat Campbell regarding Projects 3-20 and 3-25, December 3, 2020, available at [https://www.gasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836219677&blobheader=application%2Fpdf&blobheadervalue2=Content-Length&blobheadervalue1=Content-Disposition&blobheadervalue2=655732&blobheadervalue1=filename%3DFR2\\_ED\\_CL006.pdf&blobcol=urldata&blobtable=MungoBlobs](https://www.gasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836219677&blobheader=application%2Fpdf&blobheadervalue2=Content-Length&blobheadervalue1=Content-Disposition&blobheadervalue2=655732&blobheadervalue1=filename%3DFR2_ED_CL006.pdf&blobcol=urldata&blobtable=MungoBlobs).

I look forward to the opportunity to further discuss Projects Nos. 3-20 and 3-25 with GASB members and staff.

Sincerely,

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Hudson Hollister

Candidate for City Council Member At-Large  
Joliet, IL