

# GRASSROOT INSTITUTE OF HAWAII

February 10, 2021

From: Joe Kent  
Executive vice president  
Grassroot Institute of Hawaii  
1050 Bishop St., St. 508, Honolulu, HI 96813

To: David R. Bean  
Director of research and technical activities  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116  
Re: Project No. 3-20,

Aloha, David Bean,

The Governmental Accounting Standards Board is proposing both a new accounting standard<sup>1</sup> and a new accounting concept<sup>2</sup> that would normalize flawed accounting practices and make it even more difficult to reform government accounting practices that lack accuracy and transparency.

We at the Grassroot Institute of Hawaii respectfully urge you and your colleagues to retract these proposals, so government officials will have to deal honestly with public interest groups such as ours that seek sound budgeting practices and accountability.

The proposed new accounting standard and accounting concept would both require the general and other budgeted funds to have a “short-term” focus,<sup>3</sup> such as recognizing only long-term transactions “when payments are due.” But that would allow lawmakers to continue sweeping long-term liabilities off the books.

For example, Hawaii’s latest general fund budget proposal listed \$750 million of borrowing as proceeds under “other revenues” being used to balance the budget.<sup>4</sup> We would expect the state

---

<sup>1</sup> [“Proposed Statement of the Governmental Accounting Standards Board Financial Reporting Model Improvements,”](#) Governmental Accounting Standards Board, June 17, 2020.

<sup>2</sup> [“Proposed Statement of the Governmental Accounting Standards Board on concepts related to Recognition of Elements of Financial Statements,”](#) Governmental Accounting Standards Board, June 17, 2020.

<sup>3</sup> [“Proposed Statement of the Governmental Accounting Standards Board Financial Reporting Model Improvements,”](#) Governmental Accounting Standards Board, June 17, 2020, p. v. [“Proposed Statement of the Governmental Accounting Standards Board on concepts related to Recognition of Elements of Financial Statements,”](#) Governmental Accounting Standards Board, June 17, 2020, p. v.

<sup>4</sup> [“Testimony by Craig K. Hirai, Director, Hawaii Department of Budget and Finance,”](#) Hawaii Senate Committee on Ways and Means, Jan. 4, 2021, p. 20 and Attachment 1.

Comprehensive Annual Financial Report to highlight this fact, but instead the CAFR's governmental funds statements support the false claim that the budget has been balanced.

This type of accounting obscures the fact that the money is not really "revenue," but rather a liability. On the governmental funds statements, the loan is considered another "source" of funds, but a corresponding liability is not presented on the government funds balance sheet.

The proposed short-term focus standard seems to have an exception for long-term debt borrowed for short-term purposes, and provides an example for tax-anticipation notes.<sup>5</sup> But it's not clear if that standard would apply to only tax-anticipation notes, or if the standard would apply to other types of borrowing, such as in the Hawaii example already mentioned.

Furthermore, it is unclear how to account for bond swaps, such as when our state in fiscal 2020 took out \$250 million cash from the rental housing fund to place in the general fund, and replaced it with general obligation bond IOUs that needed to be paid back.<sup>6</sup> Presumably, the short-term focus would allow this liability to be swept under the rug, thereby allowing lawmakers to paint a rosy picture for the public.

These proposals would also allow misleading accounting practices to continue, such as requiring a state to calculate the net position on its Comprehensive Annual Financial Report by subtracting total liabilities from total assets, rather than from unrestricted assets.

This misleading accounting measure inflates a government's financial picture by assuming that all of a government's capital assets can be used to balance its bills. But that would be akin to balancing your budget by including the value of your house. Instead, a more realistic approach would be to use only unrestricted assets in the calculation of the net position, which would give the public a more accurate picture of a state's financial situation.

The GASB proposals also would not require pension and health benefits liabilities to be reported on the governmental funds balance sheet. But this hides the fact that those liabilities exist and, in the case of Hawaii, \$7 billion of pension benefits and \$6.7 billion of retiree health care benefits<sup>7</sup> are to be paid from those funds.

---

<sup>5</sup> ["Proposed Statement of the Governmental Accounting Standards Board Financial Reporting Model Improvements,"](#) Governmental Accounting Standards Board, June 17, 2020, pp. 11 and 59. See also, "Tax Anticipation Note," Investopedia, Apr. 8, 2019, which states, "A Tax Anticipation Note is a short-term debt security issued by a municipal government to finance an immediate project that will be repaid with future tax collections."

<sup>6</sup> ["State of Hawaii,"](#) State Department of Budget and Finance, Oct. 21, 2020, p. B-15, f.n. 4, which states, "Reflects various revenue impact bills passed by the 2020 Legislature, including general fund to general obligation fund bond swaps." See also, [Act 4](#) of 2020.

<sup>7</sup> ["State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020,"](#) Hawaii Department of Accounting and General Services, Dec. 30, 2020, p. 29.

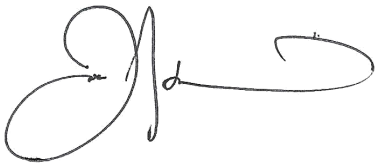
Our concerns about Hawaii's true financial condition have been reinforced by Truth in Accounting's latest 50-state analysis, which ranked Hawaii's fiscal health as 47th worst in the nation.<sup>8</sup>

The report shows that Hawaii's financial situation was dire even before the coronavirus crisis, thanks to longstanding budgeting practices that depend on less-than-trustworthy general and governmental fund "balances." These "balances" have been boosted by short-term tactics at long-run general expense.

In fiscal 2019, Hawaii's reported general fund balance was \$1.6 billion,<sup>9</sup> while its other governmental fund balances amounted to \$1.9 billion.<sup>10</sup> These large "balances" contrasted sharply with Truth in Accounting's estimates of our state government's deteriorating financial position, which showed the state's fiscal 2019 balance at -\$16.1 billion (negative \$16.1 billion), calculated as the money available to pay the state's bills.<sup>11</sup>

We ask that the GASB reconsider its proposed new statements to allow for more public oversight and understanding of a state's true financial situation.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joe Kent', with a large, stylized initial 'J' and a long horizontal flourish extending to the right.

Joe Kent  
Executive vice president  
Grassroot Institute of Hawaii

---

<sup>8</sup> ["Hawaii in Dire Fiscal Health Prior to Pandemic,"](#) Truth in Accounting, September 2020.

<sup>9</sup> ["State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020,"](#) Hawaii Office of the State Auditor, Dec. 19, 2019, p. 14.

<sup>10</sup> Ibid.

<sup>11</sup> ["Money available \(needed\) to pay bills,"](#) Data-Z.org, accessed Jan. 27, 2021.