

February 20, 2021

David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board

Sent via email: director@gasb.org

Re: Projects 3-20 and 3-25

Dear Director Bean:

Thank you for the opportunity to comment on Projects Nos. 3-20 and 3-25. As the former mayor of San Jose, California, I have been concerned about government budgeting and accounting for years. Unfortunately, the current rules make it far too easy for governments to hide liabilities from the public.

Because of the way the general fund is accounted for, government finance people and elected officials disconnect pension and retiree health care costs from the budget. Even as pension and other employee retirement benefits are a part of compensation costs earned by employees each year, these costs are discounted in the budget process, especially if elected officials choose not to set aside funds to pay these benefits. Under general fund accounting rules, the less money used to fund earned and incurred pension benefits, the greater the general fund balance. This makes it advantageous for elected officials to defer funding these benefits.

We need accounting rules that emphasize these costs, not rules that allow governments to hide them. Taxpayers and voters need to understand the full operational costs to provide government services and benefits, including running employee retirement systems.

We need to make it easier for residents and taxpayers to engage in the policy process. The key to their engagement is reliable and understandable data, including financial information. When I was mayor, we created a community-based, full-disclosure budgeting process. We shared the usual projections of expenses and revenues, but we also disclosed and discussed unfunded liabilities, such as pensions and retiree health care benefits. We engaged our people in discussions of unfunded infrastructure and long term needs that are not visible in cash basis budgets. This was not a difficult task.

Elected officials, taxpayers and residents all would benefit from having a statement of activities and balance sheet using the financial resources and full accrual basis of accounting. All would benefit from having a comparison of earned revenue to the full costs incurred during the fiscal year. All would benefit from knowing the amount of accumulated debt and costs being pushed onto future taxpayers.

I urge the Governmental Accounting Standards Board to press for full-disclosure budgets.

Chuck Reed
Former Mayor of San Jose