

February 26, 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:

From 2007 to 2015, I proudly served as a Chicago city council member representing the 2nd ward. I have run for other local offices, including for mayor of the city twice. I believe in taking common sense approaches that the City of Chicago could use to solve its budget problems. We can no longer continue to kick the can down the road. Our “scoop-and-toss” practices put off for today a problem for which we pay dearly tomorrow.

Unfortunately, common sense approaches are still non-existent in Chicago’s budget and many parts of the city’s financial report lack common sense. For example, on November 20, 2020 when she appeared on WTTW’s Chicago Tonight, Chicago’s Chief Financial Officer Jennie Huang Bennett acknowledged that “the plan to borrow an additional \$1.7 billion to refinance existing city debt to save \$450 million in 2020 and \$501 million in 2021 returns the city to the era of scoop and toss, a budget-stretching tactic reviled by fiscal watchdogs as a costly gimmick.”¹

Like the State of Illinois, Chicago prepares its budget on the modified accrual basis, which as noted in the city’s budget “classifies both long-term debt proceeds and operating transfers-in as revenues.”² The money borrowed through the scoop-and-toss tactic will be included as revenue in the 2021 budget. The 2021 budget also includes revenue from transfers-in of \$597.2 million.

Like all states and most cities, Chicago has a balanced budget requirement to prevent unsustainable debt and pushing current costs onto future taxpayers. Budgets are complicated and politically motivated. I would expect the audited financial statements to be easy to understand and the numbers to be reliable, but, unfortunately, this is not the case when it comes to General Fund accounting.

1

<https://news.wttw.com/2020/10/22/chicago-return-scoop-and-toss-borrowing-chief-financial-officer-acknowledges>

² City of Chicago [2021 Budget Overview](#), Chicago p. 179

As noted in the city's 2019 Comprehensive Annual Financial Report the "unrestricted net position showed a \$33,485.9 million deficit at the end of this year." The CAFR also indicates, "[This deficit] is the result of having long-term commitments that are greater than currently available resources. Specifically, the City did not include in past annual budgets the full amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims (\$1,087.6 million) and Municipal Employees', Laborers', Policemen's and Firemen's net pension liability and other post-employment benefits (\$29,081.3 million). The City will include these amounts in future years' budgets as they come due."

The city CAFR also notes that the city's annual budgets are adopted for all funds, including the General Fund and certain special revenue and enterprise funds, but the focus of the city's budget process is the General Fund budget, which is also referred to as the "Corporate Fund". The CAFR also points out that the General Fund is the "chief operating fund of the city." This is why the information in the CAFR for the General Fund needs to be reliable and understandable.

The CAFR indicated the General Fund unassigned balance was \$184.7 million. Resources from the General Fund will be needed in the future to finance its net pension liability of \$29.1 billion and other liabilities of \$1.1 billion, but these liabilities are not included on the General Fund balance sheet. Instead users of the financial statements are led to believe the city had \$184.7 million available to spend. The city CAFR highlights, "(the) unassigned fund balance may serve as a useful measure of a government's net resources available for **spending** at the end of the fiscal year." [emphasis added]

As a former council member, I know that if the city's financial statements indicate we have resources available for spending, the council will spend it. But I would argue that these resources are already committed to the pension and liabilities the city has accumulated and the General Fund will have to pay in the future.

In 2019, the city contributed \$1.3 billion to its four pension plans while the plans' actuaries determined \$2.6 billion was needed to properly fund the plans. Since the city budget is prepared on the modified accrual basis, there is no mention that \$2.6 billion should have been contributed and the General Fund expenditures include the lower amount. If the council had funded the proper amount then the General Fund would not have had a positive balance. I believe that the modified accrual basis of accounting gives council members and the mayor a perverse incentive to underfund the city's promised benefits because amounts contributed have a negative impact on the fund balance.

To hold our mayor and city council members accountable we need documents that indicate if the General Fund budget was "balanced" by pushing costs onto future taxpayers. This is

the most important information that the city's financial report could provide. Even though Chicago's financial reports are more than 200 pages long, this information cannot be found. In fact, the CAFR's General Fund statements indicate the budgets have been balanced while more than \$30 billion of costs have been pushed onto future taxpayers.

To stop the budget and accounting gimmicks that are allowed under the modified accrual basis, GASB needs to supplement a full accrual General Fund Statement of Revenues and Expenditures with a full accrual Statement of Revenues and Expenses, as required for the proprietary funds. No short-term balance sheet should be provided because governments' activities go on beyond one year and modern-day budgetary and other financial decisions have implications well-beyond one year. As with the proprietary funds, a full accrual General Fund Balance Sheet is needed, which must include the liabilities that will ultimately be financed by government operations that are budgeted and accounted for in the General Fund.

Please reject the current exposure drafts which seem to continue the bad budgeting and accounting that has put Chicago is more than \$30 billion of debt.

I hereby request to testify at one of your upcoming hearings.

Thank you for your consideration,

Robert W. Fioretti

Law Offices of Roth Fioretti, LCC
311 South Wacker, Suite 2470
Chicago, IL 60606
(312) 315-4203