



February 26, 2021

Governmental Accounting Standards Board
C/O Director of Research and Technical Activities
Via Email director@gasb.org.

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

You, the Governmental Accounting Standards Board, bear direct culpability for much of the fiscal calamity in many of our states and cities. That problem is use of cash basis accounting in annual government budgets, which government officials, for decades, have used to deceive the public by hiding ruinous fiscal management.

You alone have the power to fix that problem. Instead of doing so, your proposed changes to your standards would obscure and perhaps worsen it.

My opinions are based on nine years spent researching and writing on state and local fiscal problems, primarily in Illinois. I am founder and executive editor of Wirepoints, an independent, nonprofit organization dedicated to that mission.

In addition to that role we have, for those nine years, aggregated and linked to all major news and commentary on those topics from regular media and other research organizations. Through that work we have had a uniquely good lens through which to view how government financial news is reported to the general public.

That reporting is misleading to the extreme, thanks primarily to cash basis budget accounting. Year after year, Republican and Democratic officeholders alike claim "balanced" in state and local budgets. Media repeat the claim, usually without any dispute. When disputes about whether budgets are truly balanced do get reported, attention is usually limited to one-off gimmicks used in a particular year involving relatively small numbers.

That hides the bigger, persistent, structural dishonesty in cash budgets. Growing liabilities, particularly unfunded pensions and OPEBs, are ignored entirely. Borrowed money, asset sales and raids on segregated funds are counted as income. The result is a grotesque distortion of reality. When historical financial reports later appear based on more accurate accounting that is at least partially accrual basis, they usually go unreported (and they, too, are typically overly positive thanks to unrealistic assumptions you allow in pension accounting).

The State of Illinois provides an example. This year, like every year, a supposedly balanced budget has been proposed and, when it is finalized, the same claim no doubt will be made.

But the state in fact essentially lost a stunning \$150 billion in just the last 10 years. That's its decrease in total primary government net position from its audited financial statements. The public – and most public officials – are mostly blind to that, thanks to their misfocus on annual cash basis budgets.

Similar stories hold true for Chicago and countless other municipalities.

The result has been that the voting public was unaware while their governments sunk into holes that may now be impossibly deep.

I am not an accountant so I will not offer precise changes that to the language that should be made in your standards. I leave that to the commenters with that expertise who agree in principle with my perspective. I do agree, however, with those who have already commented who say that the pending changes will only obscure the issue, and that it is misleading to label them as an adoption of some limited form of accrual accounting. Clear, firm changes must be made to force real, accrual basis budgeting. And it is precisely because I am not an accountant and have instead seen how accountants' work gets reported to the general public that I hold my opinions.

Primary blame for misleading budgets falls on the public officials who misuse cash basis budgets.

You, however, have been their enablers and it is incumbent on you to fix the problem.

Sincerely,



Mark Glennon