



David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

February 26, 2021

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

Dear Director Bean:

Thank you for the opportunity to comment on Project Nos. 3-20 and 3-25. The Illinois Policy Institute is a nonpartisan, nonprofit public policy research and education organization that promotes personal and economic freedom in Illinois, funded by the voluntary contributions of its supporters. The Institute's policy work includes budget and tax policy, labor policy, good government, and jobs and economic growth.

The proposed changes to the Recognition of Elements of Financial Statements in Project No. 3-20 and Financial Reporting Model Improvements in Project No. 3-25 do not improve the quality of financial reporting by governments. Instead, these proposals continue problematic aspects of the current standards, which fail to require full accrual accounting for all governmental funds. They lead to deceptive budgeting practices that increase public debts and tax burdens even as public officials claim to have balanced their governments' budgets.

Any changes made should be focused on increasing the transparency of public finances so taxpayers can understand how their elected officials are spending their money.

Unfortunately, the proposed changes will continue to allow public budgeting that misleads taxpayers. Governmental funds statements will still exclude some of the largest liabilities, and thereby show inflated net positions that can be advertised as "surpluses." Governments may choose to make their funds statements look better in the short run by underfunding necessary pension and other retirement benefit contributions. This practice is detrimental to public budgeting yet is allowed by current GASB standards. The proposed changes would not address this fundamental problem.

Under the proposed standards, governments will still be allowed to hide long-term liabilities from the public while promoting their budgets as “balanced,” which is often constitutionally required. Setting standards that enable these deceptive practices undermines the fiscal health of government entities. Taxpayers end up paying a massive price for lax standards that do not account for long-term liabilities while allowing government officials to claim they are properly managing public finances.

In Chicago, debt-per-taxpayer has reached \$41,100 on \$36.4 billion in net debt. In Illinois, the per-taxpayer debt burden stands at \$52,000 on \$226 billion in net debt. Deceptive accounting practices allowed by GASB concerning pension debt contribute to both burdens. Ultimately, fiscal disasters such as those in the city of Chicago and the state of Illinois arise from these lax reporting standards. It should be a priority of GASB to implement standards that correct this problem.

With incomplete and misleading information, policymakers will continue to make ill-advised financial decisions. GASB should adopt a standard requiring full accrual calculations and techniques across all budgeted funds. This would ensure taxpayer money is being managed according to sound accounting practices instead of easily manipulated mechanisms that deceive the public and allow elected leaders to circumvent constitutional requirements.

Sincerely,



Matt Paprocki
President, Illinois Policy Institute