State of Connecticut
HOUSE OF REPRESENTATIVES
STATE CAPITOL
HARTFORD, CONNECTICUT 06106-1591

REPRESENTATIVE TOM REYNOLDS
42ND ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING, ROOM 4114
HARTFORD, CT 06106-1591

HOME: 860-464-0441
CAPITOL: 860-240-8585
TOLL FREE: 800-842-8267
www.housedems.ct.gov/Reynolds

DEPUTY MAJORITY LEADER

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PLANNING AND DEVELOPMENT COMMITTEE

Testimony of Representative Tom Reynolds
Joint Committee on Appropriations
April 5, 2011

H.B. No. 5655, AN ACT REQUIRING THE STATE TO USE GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Senator Harp, Representative Walker, and fellow members of the Appropriations Committee, I am pleased to submit testimony in support of this proposed bill, which I introduced as part of a package of budget reform legislation to change the state's policies and practices that have helped to create and perpetuate our fiscal crisis.

This bill would mandate that the state develop and abide by a multi-year plan to transition to Generally Accepted Accounting Principles (GAAP) established by the Governmental Accounting Standards Board (GASB). GASB is an independent organization that establishes standards of accounting for state and local governments, collectively referred to as GAAP.

GAAP standards are used by the state for federal auditing purposes, bond issuances, and selected reports by the State Comptroller. However, the standards have not been honored in the budget process. I am pleased to note that Governor Dannel Malloy has proposed changing this trend. Connecticut develops budgets and prepares financial statements based on a modified cash basis, rather than a modified accrual basis required by GAAP. This leads to a less than honest and transparent system of reporting the state's true financial state and future obligations. It also leaves the state budget vulnerable to manipulation.

According to the Government Performance Project, "(Connecticut's) unusual way of keeping its books has made it somewhat easier to hide from the truth. Connecticut accounts for . . . revenue streams as quickly as possible, while taking the opposite approach with its expenses." Abiding by GAAP would likely reveal millions of dollars in artificially buoyed funds.

Conversion to GAAP was mandated in state law in 1993, but has been repeatedly postponed by the Governor and legislature because of the impact on the budget. GAAP would, in essence, decrease any year-end surplus and increase any deficit. Over the past three fiscal years the annual GAAP deficit has averaged over $1 billion per year—thus the need for a multi-year plan to transition to GAAP compliance.

GAAP is necessary to rebuild public trust and to enhance accountability and transparency. The state requires businesses and municipalities to abide by these principles. State government should hold itself to the same high standards.