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Date: February 1, 2022
To: Assembly Committee on Constitution and Ethics
From: Representative Terry Katsma
Re: Assembly Joint Resolution 117: GAAP Accounting Requirement

Dear Chairman Wichgers and committee members,

Thank you for convening a hearing on Assembly Joint Resolution (AJR) 117.

AJR 117 is the first consideration of a constitutional amendment to require the state to account for and report all funds it receives or expends in accordance with generally accepted accounting principles (GAAP).

Budgeting and appropriating public funds is perhaps the Legislature's most important responsibility. It is rather widely known that, in stark contrast to the U.S. government, our state government is constitutionally required to operate with a balanced budget. Other statutory requirements and procedures in our state also contribute to sound financial management of the public's money—such as maintaining a cash reserve in each biennial budget; more recently, maintaining a robust Rainy Day Fund; and much more. In my opinion, responsible and realistic budgeting by the Wisconsin Legislature over the past decade has directly contributed to economic growth during the same period—to the point where, today, our state government's ledgers are properly balanced for the first time in a generation.

AJR 117 is intended to help preserve this historic achievement and help perpetuate the responsible, honest budgeting that has defined the past decade. Requiring government—requiring ourselves, really, and our successors in years to come—to budget and appropriate public funds according to the same accounting methods that must be followed in private industry and most other state and local governments will help prevent the use of accounting tricks and budget gimmicks that might otherwise prove tempting.

Thank you for your time and consideration of AJR 117.



HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

February 1, 2022 Assembly Committee on Constitution and Ethics Testimony on Assembly Joint Resolution 117

Thank you Chairman Wichgers and committee members for hearing Assembly Joint Resolution (AJR) 117, which would require Wisconsin to budget in accordance with generally accepted accounting principles (GAAP). Thank you Chairman Wichgers, Representatives Magnafici, Murphy and Thiesfeldt for co-authoring this important legislation.

Historically, Wisconsin has “balanced” its books by using cash-basis budgeting. This is not the same accounting method that is used by businesses, counties, cities, school districts, and townships.

Over the years, this had led to all kinds of creative techniques to “balance” the budget such as deferring payments to local governments, school districts, and vendors. Using cash-basis accounting is like spending on your credit card, you purchase gifts in December, but you don’t pay the bill until January.

AJR 117 would require Wisconsin to account for and report all funds it receives or expends using GAAP. The adoption of GAAP by the State of Wisconsin for financial reporting purposes serves to present the State’s financial position more accurately. GAAP reporting accurately measures financial operations, fully discloses financial position, provides an externally accepted presentation, and provides information for financial managers.

Thanks to the many reforms and responsible budgeting of the legislature over the last decade, we have made tremendous progress in eliminating the GAAP deficit. In 2010, the Wisconsin GAAP deficit stood at nearly \$3 billion. In the most recent Comprehensive Annual Financial Report (CAFR), published annually by the State Controller’s Office in the Department of Administration (DOA), Wisconsin had a record high surplus of \$1.18 billion. This is the second consecutive year that Wisconsin has ended the fiscal year with a positive GAAP fund balance.

I believe the only permanent solution is to have the voters in Wisconsin approve an amendment to the state constitution that will require future legislatures and governors to budget on the basis of generally accepted accounting principles. The state of Wisconsin should live by the same rules as our constituents.

Thank you again to the committee for hearing this proposal and your timely action on the bill.