Letter of Comment No. 100 File Reference: 13-3PV Date Received: 3/16/12

VERMONT

State of Vermont

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Mr. David Bean
Director of Research
Government Accounting Standards Board
401 Merritt 7
Norwalk CT 06856-5116

Dear Mr. Bean:

On behalf of the State of Vermont, I appreciate the opportunity to respond to the Government Accounting Standards Board's Preliminary Views (PV) document, *Economic Condition Reporting: Financial Projections*.

We do concur with the Board's conclusion that the issue of fiscal sustainability is important for the users of a government's financial statements, and that decision-makers and other stakeholders need forward-looking information like projections to make sound fiscal and policy decision. In fact, in Vermont, like many other States, projections and estimates are already being made, and are presented in a format that we consider to be more informative than the statements included in the PV document.

The State of Vermont currently prepares a consensus revenue forecast which is updated every six months, more frequently in periods of economic uncertainty. The forecast is produced by the State's economists and is a joint effort by the Governor (executive branch) and the Joint Fiscal Office (legislative branch). This forecast projects revenues for the State's three primary funds (the General Fund, the Education Fund, and the Transportation Fund) for the next three years. From that forecast, the Governor prepares an executive budget recommendation, with both a budget adjustment proposal for the current year and a budget proposal for the following year. The budget proposals encompass all funds of the State, and are designed to present detailed program information as well as funding sources. The information is far more detailed and far more useful to readers than the projected cash inflows and cash outflows contained in this preliminary views document.

For many years now, the State has participated in the Government Finance Officers Association's certificate program for its Comprehensive Annual Financial Report. We also participated in GASB's field test for this PV document. We believe that the approaches to preparation of the CAFR, and the preparation of the projections included in this document are different, and that they do not belong in the same document. The financial statements and other disclosures contained in the CAFR are prepared from an historical basis; there are clear accounting standards that are used to determine how virtually every account should be treated and reported; estimates, while they exist, are more straight-forward, have a longer history to assist in making those estimates, and also have clear accounting guidance. The information presented in these financial projections is purely in the realm of the future, and the connection to historical information can be tenuous at best. One only has to look at the rapid and substantial swings in inflows and outflows we have witnessed over the past three years to understand that even trained economists are having trouble forecasting what will occur over the next five years. Users have access to as good, if not better, information by analyzing the historical trend information included in the statistical section of the CAFR and determine how the governmental entity responded to changes in conditions over the ten year period included in that section.

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Both State and local governments are governed by elected officials, and these elected officials come in and out of office on a regular basis. A change in elected officials will bring about a corresponding change in policy. A projection made five years into the future ignores the fact that what will happen in the outlying years is very likely to be much different from the information presented according to the preliminary views document. We remain concerned that readers will subsequently compare projections for these years with ultimate actual results, without understanding that there may be significant policy changes impacting those results.

We have serious concerns about the burden that this will place on most preparers. We did take part in the field test, and because it was a field test, and the resulting information will not be included in our CAFR, we took a simplified approach to preparing the information this time. Were we to be preparing this information for inclusion in our CAFR, we would likely apply a much different level of effort and involve a greater number of staff in its preparation; we would likely engage the State's economists and actuaries to provide longer-term information; and we would have to engage our auditors to apply their procedures to this additional Required Supplementary Information. This would obviously add a significant expense to our budget, and would make a tight preparation schedule even more difficult to meet. In addition, we feel that the burden would be even greater on those municipalities that do not already employ economists and actuaries, or do not have staff with the expertise to prepare such projections.

It is our belief that GASB should discontinue any efforts to promulgate where and how economic condition reporting is communicated as a part of external financial reporting. Accordingly, we respectfully decline to answer the PV document's lists of questions.

We appreciate the opportunity to provide our comments on this important subject. Should you have any questions or need additional information regarding our response, please do not hesitate to contact me.

Sincerely,

James B. Reardon, CPA

Commissioner

Vermont Department of Finance and Management