Letter of Comment No. 101 File Reference: 13-3PV Date Received: 3/16/12



City of New York

Office of Management and Budget
75 Park Place, New York, NY 10007-2146

Mark Page Director

TESTIMONY OF MARK PAGE TO THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD ON APRIL 17, 2012 AT THE LAGUARDIA PLAZA HOTEL

Good morning. I am Mark Page, the Director of Management and Budget of the City of New York.

Members and staff of the Governmental Accounting Standards Board, I want to thank you for the opportunity to testify before you today regarding the Board's *Preliminary Views on Economic Condition Reporting: Financial Projections*.

We do not support the proposal, as we believe that the proper venue for financial projections is in a government's budget and financial plan documents, and that the only meaningful basis for such projections is a government's best estimates based on its officials' understanding of existing circumstances and expected future events. For over 30 years, NYC has published four-year financial plans on a quarterly basis. In our view financial projections are the logical outgrowth of a government's forward-looking budgeting processes rather than the historically-focused financial reporting. Moreover, the City's Charter and New York State statute defined government structure – and that of many other governments – legally places responsibility for budgets and financial plans in a different branch of government from that which has responsibility for general purpose external financial reporting, providing many practical and political barriers to implementing the PV proposals.

OMB, which is part of the Mayor's Office, plays a central role in facilitating transparency of the City's economic and fiscal condition, including maintaining the City's multi-year financial plan which contains detailed revenue and expenditure projections – as well as extensive disclosures of assumptions and methodology for those projections – covering four years. The financial plan is updated and published four times each year and forms the basis for each fiscal year's proposed and adopted budgets. In contrast, the PV's proposed projections would only be prepared annually at the time of the financial statement preparation and would quickly become stale.

OMB also works closely with the Office of the City's Comptroller, which prepares and

Letter of Comment No. 101 File Reference: 13-3PV Date Received: 3/16/12

publishes the City's GAAP-based financial statements and comprehensive annual financial report, including providing the detailed analyses that support significant revenue and expense accruals in the City's audited financial statements and the accompanying disclosures. Both offices also share responsibility for the City's bond offering documents that include the City's historical financial information and projections, with those projections based on the City's financial plan. We believe that this is a natural division of responsibility for forward-looking and historical information, and that even in governments where the budgeting/financial planning operations and the accounting/financial reporting operations report to a single elected official, the functions are clearly distinct.

Unlike the PV proposal, the City's financial plan does not start with the assumption that the future will mirror the past, altered only by already-enacted legislation or other formally-approved actions. Instead, it takes into account expected events and actions – such as the anticipated costs and/or savings of new initiatives, impacts of anticipated federal and state actions and changes in economic conditions – in order to provide useful information to readers, consistent with the information used by City officials in making decisions necessary to carry out their duties.

While we understand that the GASB's proposal is intended to provide some level of objectivity and comparability to the projections, we believe the results will be neither comparable nor useful. If projections of debt service principal and interest are confined to "approved" debt issuances, the projected debt service would be much lower than the levels we are almost certain to see in the plan period. If bond interest rate assumptions reflect the historically low levels of the recent past, these would also produce a lower debt service level than is likely to occur in the future. If projections of obligations are based only on "approved" actions, then large capital projects which are planned would be omitted from projections of bonded debt obligations, and increases in pensions and OPEB obligations from expected staffing increases – such as initiatives to reduce school or class sizes, or early retirement incentives - would also be ignored.

Another very significant misalignment would arise for the City in projections based on the PV proposal because our capital program is not financed using traditional project-specific bond issues, but by capital cash flow borrowing. Under this approach, the City is able to appropriately time and size bond issues based on the overall cash disbursements flow for our large, complex and varied capital program. The City avoids the unnecessary burden on borrowing capacity from having large amounts of bond proceeds on hand that are restricted for use for specific individual projects, any of which may from time-to-time experience unexpected delays, as well as the "negative carrying cost" of such proceeds due to arbitrage yield restrictions. However, the PV approach of including only "approved" actions in projections means that the entire cash outflow for approved capital projects would be projected but not be matched by inflows from approved future bond issuances, effectively forcing the projection of substantial cashflow based deficits for all years of the projection period.

In NYC, voters directly and separately elect both the Mayor and the Comptroller, and

Letter of Comment No. 101 File Reference: 13-3PV Date Received: 3/16/12

each has specific responsibilities under the City Charter and State law. While there are many areas of close coordination, the City's budgets and financial plans are the responsibility of the Mayor, while accounting and general purpose external financial reporting are the responsibility of the Comptroller. In order to meet the proposed reporting requirements, the Comptroller will either need to rely on projections from the Mayor – which may or may not be politically palatable – or develop his or her own projections; resulting in markedly increased costs and introducing the likelihood of pervasive confusion about the relative merits of inconsistent numbers.

In summary, we believe that the City's record of widespread acceptance of its debt is one clear indicator that the current budget and financial plan publications are meeting user needs and providing extensive, decision-useful forward-looking information. For any government which does not already prepare financial plans, the PV proposal would require large incremental effort and expense; for those like NYC which already produce and regularly update comprehensive financial plans, the additional cost comes with no additional benefit – and could, in fact, detract from the current disclosures by introducing confusion and the need for constant explanation and reconciliation, as well as the potential for "politicization" of financial projections.

Again, I thank you for the opportunity to comment on the PV, and I would be pleased to answer any questions.