#### **GASB Preliminary Views**

# **Economic Condition Reporting: Financial Projections Response from the City of Charlotte, North Carolina**

### **General Response:**

The Governmental Accounting Standards Board now has 62 statements that state and local governments are required to follow. Each new statement necessitates extensive research and effort to ensure respective organizations are in compliance with the new requirements. In an environment of reduced budgetary and staff resources, each statement requires additional work from employees that are already spread incredibly thin. If the recently issued Preliminary Views on Economic Condition Reporting: Financial Projections becomes a requirement, it will inevitably cause additional strain on public sector finance departments around the country.

The City of Charlotte regularly provides projections to other City Departments, the City Council, outside financial partners and rating agencies. Projections and other prospective data are prepared individually to most accurately respond to the unique requests the City of Charlotte receives. The rating agencies and Charlotte's financial partners routinely ask for the most current, detailed and specific data possible to meet their individual needs; making the work required to meet the proposed GASB financial projections statement seemingly irrelevant. As noted in GASB Concepts Statement No. 1, "Certain information is better provided by financial statements; other information is better provided, or can only be provided, by financial reporting outside the financial statements. But financial reporting is not the only source of financial information about governmental entities. In many cases, users of financial reports also need to consult other sources to completely satisfy their information needs."

The City of Charlotte is an active participant of the Government Finance Officers Association, who has taken a formal stance that the GASB should not set standards for fiscal sustainability reporting. In 2010 the Government Finance Officers Association (GFOA) approved a policy that states, "Whereas, the involvement of an accounting standard-setting body in matters beyond the scope of accounting and financial reporting exceeds its legitimate authority and expertise and constitutes an inappropriate use of scarce resources." The Preliminary Views proposes requirements that are beyond the scope or jurisdiction of the GASB. True financial reporting should include factual and historical data, not future projections. Concepts Statement No. 1 notes the historical nature of the data provided when it states the objectives of financial reporting should be (1) to assist in fulfilling the government's duty to be publicly accountable by providing information on current-year revenues and current-year services, demonstrating compliance with the legally adopted budget, and assessing service efforts, costs, and accomplishments; (2) to assist in evaluating operating results for the year by providing information about sources and uses of financial resources, about financing activities and cash requirements, and about whether financial position improved or deteriorated as a result of the year's operations; and (3) to assist in assessing the level of services that can be provided and its ability to meet its obligations by providing information on financial position and condition, physical and other nonfinancial resources

having useful lives extending beyond the current year, and disclosing legal restrictions on resources and the risk of potential loss of resources.

The proposed financial projections requirement would not add value to the City of Charlotte's annual financial report because it focuses on historical and current data. The costs associated with reformatting Charlotte's financial report would not be counterbalanced by any perceived benefit for the "decision makers" discussed in the Preliminary Views document. In summary, the City of Charlotte agrees with the GFOA, "that the issue of assessing a government's future fiscal sustainability clearly beyond the scope of accounting and financial reporting as they have traditionally and universally been understood," (Policy adopted by the GFOA Membership, June 8, 2010). While financial projections provide value to internal and external decision makers, the City of Charlotte specifically tailors its projections to meet the unique needs of each individual requesting this data throughout the year.

It is disappointing that although Concepts Statement No. 1 states "Cost-benefit relationships will be carefully considered by the Board, during its research and due process, when establishing individual standards," the GASB did not include any questions about the cost/benefit associated with requiring financial projections in the Preliminary Views document. The citizens of Charlotte expect City staff to use public resources, paid for using tax dollars, solely for the components necessary to ensure the delivery of high quality public goods and services. Including financial projections in the City's annual financial report would duplicate efforts, provide no additional benefit to citizens or financial partners and cause an unnecessary use of scarce City resources.

## Responses to Questions for Respondents:

- 1. The Board's preliminary view is that there are five components of information that are necessary to assist users in assessing a governmental entity's fiscal sustainability (Chapter 3, paragraph 2):
  - Component 1—Projections of the total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows (Chapter 3, paragraphs 4–9)
    - The City of Charlotte believes that cash inflow projections do not belong in financial reports.
  - Component 2—Projections of the total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows (Chapter 3, paragraphs 10–14)
    - The City of Charlotte does not feel annual financial reports should contain cash outflow projections.
  - Component 3—Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations (Chapter 3, paragraphs 15–20)
    - The City of Charlotte feels that financial projections do not belong in its annual financial report.
  - Component 4—Projections of annual debt service payments (principal and interest) (Chapter 3, paragraphs 21–23)
    - GASB Statement 38 requires footnote disclosure requirements for principal and interest payments on debt until maturity. The City of Charlotte does not feel future principal and

interest for debt obligations that have not been issued should be included in the financial report.

• Component 5—Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies (Chapter 3, paragraphs 24–26).

Intergovernmental service interdependencies are included in the City of Charlotte's annual operating budget, and would have a relatively immaterial impact on our financial statements.

#### Do you agree with this view? Why or why not?

No, the City of Charlotte does not agree with this view because, as discussed in our General Response, we do not feel financial projections belong in an annual financial report.

2. The Board's preliminary view is that financial projections should be (a) based on current policy, (b) informed by historical information, and (c) adjusted for known events and conditions that affect the projection periods. Current policy includes policy changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods (Chapter 4, paragraphs 2–7). Do you agree with this view? Why or why not?

No, the City of Charlotte does not agree with this view because financial projections are beyond the scope or jurisdiction of the GASB.

3. The Board's preliminary view is that inflows and outflows should be projected on a cash basis of accounting, and financial obligations should be projected on an accrual basis of accounting (Chapter 4, paragraphs 8–12). Do you agree with this view? Why or why not?

No, the City of Charlotte does not agree with this view because, as discussed in our General Response, we do not feel financial projections belong in an annual financial report.

4. The Board's preliminary view is that the identification and development of assumptions for making financial projections should be guided by a principles-based approach. Such an approach would set forth principles that require assumptions to be based on relevant historical information, as well as events and conditions that have occurred and affect the projection periods. Furthermore, these assumptions should be (a) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (b) comprehensive by considering significant trends, events, and conditions (Chapter 4, paragraphs 13–16). Do you agree with this view? Why or why not?

No, the City of Charlotte does not agree with this view because, as discussed in our General Response, we do not feel financial projections belong in an annual financial report.

5. The Board's preliminary view is that annual financial projections should be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting (Chapter 4, paragraphs 19–23). Do you agree with this view? Why or why not?

No, the City of Charlotte does not agree with this view because, as discussed in our General Response, we do not feel financial projections belong in an annual financial report.

6. The Board's preliminary view is that all of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore should be required and communicated as required supplementary information (Chapter 5, paragraphs 7–12). Do you agree with this view? Why or why not?

Financial reports should include factual, current and historical data. Financial projections, although vitally important for financial planning, are inherently speculative and create the potential to provide information that could unintentionally mislead readers of financial reports. The City of Charlotte provides financial projections and other speculative data in its annual operating and capital budget, which is the appropriate document to provide information for the City's future financial plans.

GASB Concepts Statement No. 1 states: "Financial reporting is only one source of information needed by users to make decisions about state and local governments. Governmental entities—and those who have an interest in them—are affected by numerous factors that interact with each other in complex ways. To make decisions, users need to combine the information provided by financial reporting with other pertinent information, for example, on general economic conditions or political environment. Users of state and local governmental financial reports are diverse; their needs may be equally diverse. As a result, it may be impossible to provide information in any one report sufficient to meet all the needs of all users."

The City of Charlotte is in complete agreement with a statement produced by the GFOA Membership in June of 2010, "...the issue of assessing a government's future fiscal sustainability clearly is beyond the scope of accounting and financial reporting as they have traditionally been understood. Therefore, be it resolved that the GFOA adamantly opposes any effort on the part of the GASB to set standards of reporting for fiscal sustainability."

7. The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions (Chapter 5, paragraphs 13 and 14). Do you agree with this view? Why or why not?

No, the City of Charlotte does not agree with this view because, as discussed in our General Response, we do not feel financial projections belong in an annual financial report.

8. Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate (for example, requiring governmental entities over certain dollar thresholds to implement first)? If so, what phase-in criteria would you recommend (Chapter 5, paragraph 14)?

No, the City of Charlotte does not agree with this view because, as discussed in our General Response, we do not feel financial projections belong in an annual financial report.