

Finance Department  
County Center, 12<sup>th</sup> Floor  
Clerk of Circuit Court  
Hillsborough County, Florida  
P. O. Box 1110  
Tampa, FL 33601-1110

March 16, 2012

David Bean  
Director of Research and Technical Activities  
Project No. 34P  
Government Accounting Standards Board  
401 Merritt 7 PO Box 5116  
Norwalk, CT 06856-5116

Sent to [director@gasb.org](mailto:director@gasb.org)  
by e-mail only

**Subject: Comments on GASB's Preliminary Views on Economic Condition Reporting: Financial Projections**

Dear Mr. Bean:

Hillsborough County, Florida is a large general-purpose government with combined annual revenues of over \$2.0 billion. The Clerk of Circuit Court is the accountant and chief financial officer of Hillsborough County. This document summarizes our views on the *Preliminary Views of the Governmental Accounting Standards Board on Economic Condition Reporting: Financial Projections*, and our responses to the questions listed in the document.

This response will describe why we are opposed to the provisions of this preliminary views document. Historically, CAFRs have provided actual figures from the "past" while budgets have represented financial plans for the "future." This separation has worked very effectively. We believe this distinction should continue. The following chart highlights how CAFRs differ from budgets.

	<b>CAFRs</b>	<b>Budget Documents</b>
<b>Focus</b>	<ul style="list-style-type: none"><li>• Decisions made in the past</li><li>• Prior fiscal year in Financial Section</li><li>• Past 10 prior years in Statistical Section</li></ul>	<ul style="list-style-type: none"><li>• Decisions to be made in future</li><li>• Next 1 or 2 years in operating budget</li><li>• Next 5 or 6 years in capital budget</li></ul>
<b>Source:</b>	<ul style="list-style-type: none"><li>• Actual activities</li><li>• Some management estimates</li></ul>	<ul style="list-style-type: none"><li>• Planned activities</li><li>• Best estimates of future elected official decisions, statutory changes, and economic factors</li></ul>
<b>Other:</b>	<ul style="list-style-type: none"><li>• Audited</li><li>• Non-political</li><li>• Not revised after audit opinion is issued</li></ul>	<ul style="list-style-type: none"><li>• Not audited</li><li>• Political</li><li>• Revised by budget amendments</li></ul>

CAFR is **not** the place for financial projections because:

**Sudden unilateral changes by other entities can affect financial projections**

Financial projections are dependent on the net results of the future actions of state and federal governments, the Federal Reserve, other sovereign nations, multi-national corporations, and other entities.

- a. Hillsborough County is a political subdivision of the state of Florida and is dependent on the state for providing or authorizing many types of revenues.
- b. Many local governments have a high proportion of their cash and investments invested in investment issued by or backed by the US government.
- c. Many local governments receive a significant proportion of their revenues from the US government and their residents receive (and pay) a significant proportion of their income from (and to) the US government.
- d. The Federal Reserve can unilaterally change the money supply or monetary policy affecting the level of ad valorem property tax and sales tax revenues.
- e. Actions of sovereign nations and multinational corporations in financial/other markets can unilaterally affect the purchasing power of the US dollar, interest rates (and real estate values), business activity, which in turn affect local government cash flows.

All of these factors can cause sudden changes, which are difficult to predict.

**Financial projections are affected by unexpected changes in economic conditions and financial markets**

The financial crisis that started in 2007 demonstrated how local governments were affected by financial factors beyond their control that were very difficult to project. For example, during that time, there was a run on the Florida Local Government Investment Pool. As a result, 14% of the County's investment in the fund was frozen and a month's interest was lost. Some bond insurers lost their AAA ratings, making their guarantees useless on existing bonds. Property tax and sales tax revenues went into multiyear declines. Fuel prices spiked upward then collapsed. Financial projections didn't even consider that such drastic changes could occur.

**Only the most likely assumptions would be used in financial projections**

Even if these drastic changes could have been predicted, they would not have been included in financial projections for the fact that they were considered unlikely at that time. Only the future scenario most likely at that point in time would have been included in financial projections.

**Natural bias toward using same assumptions as others**

The CAFR has not been a “political” document. If financial projections are required, there would be a natural tendency to use the same assumptions used by other governmental entities. This way, if financial projections are wrong, it is better to be a part of a large group who is wrong as well. However, if the same assumptions are used as others, it could make the financial projections less useful.

**Operating and capital budgets remain the primary source for financial projections because CAFR financial projections will quickly become outdated**

Financial projections are likely to change constantly depending on (a) resident needs, (b) cash inflow and outflows anticipated, and (c) governing body decisions. The CAFR is essentially unchangeable once the auditors’ opinions are received. Since financial projections are subject to frequent revision, the CAFR’s financial projections will be outdated soon after it is issued.

As a result, the operating and capital budget documents will still remain as premier sources for financial projections because they will have up-to-date information and will reflect the most recent governing body priorities.

**Financial projections are counter-productive for sophisticated financial statement users**

Including financial projections in the CAFR is counter-productive for sophisticated financial statement users because:

- a. The provisions of this preliminary views document would delay issuance of the CAFR and prevent sophisticated users from using the CAFR to make the financial projections they could have made for themselves if they had had the CAFR earlier.
- b. Low quality financial projections included in a CAFR would not be useful for sophisticated users.
- c. Higher quality financial projections would take more time, but the delay in CAFR completion would make the projections less relevant to financial statement users.
- d. CAFR financial projections are likely to become inaccurate or outdated after the CAFR is issued.

**CAFRs with financial projections would be too complex for members of the public.**

Member of the public are already intimidated by the size of the CAFR. Making the CAFR even more complex with financial projections would discourage even more members of the public from trying to read CAFRs.

**Financial projections invite criticism**

CAFR projections could be used by critics of the government to question why the CAFR's projections are different from, and probably be less accurate than, the proposed budget and adopted budget which are issued later.

Requiring financial projections in CAFRs would be counterproductive for sophisticated financial statement users because it would delay the issuance of the CAFR and not give them much more than what they could have prepared for themselves earlier if the CAFR had been issued earlier. Financial projections would make CAFRs too complex and further discourage members of the public from reading them. Since financial projections are subject to frequent revisions, and since the CAFR is unlikely to be revised once it is issued, the CAFR's financial projections will not be useful once they are outdated. As a result, the operating and capital budgets will remain the premier source for financial projections. For the reasons stated above, we believe that financial projections should be required as a part of CAFRs.

Here are answers to questions listed in the Preliminary Views document.

- Question 1: We do not believe that financial projections should be included in the CAFR. We believe that when financial projections are prepared for budgetary purposes (outside of the scope of the GASB), the five components listed could be useful.
- Question 2: We do not believe that financial projections should be included in the CAFR. When they are prepared for budgetary purposes (outside of the scope of the GASB), we agree that financial projections should be based on current policy, policy adopted but not yet in effect, historical information, as well as adjustments for known events or conditions.
- Question 3: At Hillsborough County, we budget using the modified accrual basis of accounting. We believe that it would be preferable if financial projections and budgets are prepared on the modified accrual basis of accounting. By doing this, the projections are consistent with and comparable to the actual revenue and expenditure information.
- Question 4: In theory we agree with the basis for assumptions described, but do not believe financial projections should be included in the CAFR.
- Question 5: We do not believe financial projections should be included in the CAFR. Hillsborough County management and elected officials issue a five to six-year Capital Improvement Plan (CIP). If financial projections must be

included, then two years would be more reasonable than five, for the overall operating budget.

Question 6: We believe that the 5 components though useful, do not belong in a CAFR because sophisticated financial statement users can already estimate these figures using the information contained in the CAFR, supplemented by operating and capital budgets, and their own estimates of effects of other entities and outside influences. In addition, sophisticated financial statement users would have to wait longer for the CAFR to be issued with financial projections, without gaining anything they couldn't prepare for themselves. The cost and delay of financial projections in the CAFR would outweigh any benefits, especially for sophisticated users.

Question 7: No. We disagree with the Board's preliminary view that all governments should be required to report financial projections and related narrative discussions because of the reasons stated in the first section of this response.

Question 8: We believe financial projects should not be required at all.

If you have any questions, please contact me by e-mail at [gajjar@hillsclerk.com](mailto:gajjar@hillsclerk.com) or by telephone at (813)276-2029 ext. 7026.

Sincerely,

Ajay Gajjar  
Assistant Finance Director

Distribution to Response Committee for GASB Financial Projections Preliminary Views Document:

Glenda Blasko	Accounting Manager, Public Utilities Department
Jack Brooks	Director, Clerk's Accounting
John Fitzhenry	Enterprise/Debt/Capital Assets Manager, County Finance Department
Penny Harding	Manager, Clerk's Accounting Department
Linda Hoover	Accountant II (Financial Reporting), County Finance Department
Annie Paleveda	Accountant II, County Finance Department
Bala Sridhar	Budget/Rates Manager, Public Utilities Department
Stephanie Tyler	Accountant III, County Finance Department
Rick VanArsdall	Budget Director, Clerk of Circuit Court
Mary Wilson	Accounting Manager, County Finance Department

Other copies: Tim Simon, Finance Director, County Finance Department  
Tom Fesler, Director, Business Support Services Department  
Julie Wisdom, Debt and Financial Analysis Manager

