THOMAS P. DINAPOLI STATE COMPTROLLER



110 STATE STREET ALBANY, NEW YORK 12236

STATE OF NEW YORK OFFICE OF THE STATE COMPTROLLER

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Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 13-3
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the New York Office of the State Comptroller; I am pleased to respond to the Governmental Accounting Standards Board Preliminary Views (PV), on major issues related to *Economic Condition Reporting: Financial Projections*. I have provided responses to the questions in the PV and added some additional comments for the Board's consideration.

Question 1

Component 1- Projections of total cash inflows and major individual cash inflows in dollars as a percentage of total cash inflows, with explanations of the known causes of fluctuations (CH3 p 4-9).

Component 2 - Projections of the total cash outflows and major individual cash outflows, in dollars as a percentage of total cash outflows, with explanations of the known causes of fluctuations (CH3 p 10-14).

Component 3 - Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other post employment benefits and long-term contracts, with explanations of the known causes of fluctuations in financial obligations (CH3 p 15-20).

Component 4 - Projections of annual debt service payments (principal and interest) (CH3 p 21-23).

Component 5 - Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies (CH3 p 24-26).

The PV is that these 5 components of information are necessary to assist users in assessing a government's fiscal sustainability (CH3 p2), Do you agree with these views?

We generally agree and currently provide similar information in other reports. We also believe that for this initiative to generate the highest value, flexibility be given to the State to utilize any existing information and formats of reporting such as those found in the NYS budget documentation and related processes, which are already established and accepted. This existing data appears to embrace what the components above seek and is supported by comprehensive narratives that would produce a clear understanding of the underlying environment and other conditions that drive projections. This flexibility would assist the State in providing an abundance of consistent information over a long period of time thereby increasing the value of the projections and any related assessments.

The budget process produces specific reports annually, typically in 5 volumes of schedules, projections and explanatory material in approximately 2000 pages. NYS quantifies many dynamics for this endeavor, but after deliberate effort, it still may not immediately satisfy all that GASB suggests in the PV. The State, which has one of the 25 largest economies in the world, may not easily or economically obtain the level of detail the PV requires to be provided. However, the budget process produces the best and most comprehensive set of projections the State has. Developing another product that competes in any way with this informative source would be costly, confusing and a disservice to stakeholders.

Question 2

The PV is that financial projections should be:

- a- based on current policy:
- b- informed by historical information:
- c- Adjusted for known events and conditions that affect 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 (CH4 p 2-7).

Do you agree with this view, why or why not?

We agree. These conditions appear to be in place in the current system. This is a reason why the current budget projections appear to be a good fit. The institutionalized "official" budget process in New York is based upon hearings, negotiations and timelines. It is not necessarily the only projection-assessment tool available, but is the most widely accepted. Moreover, the projections in the official material are updated several times during the year on the NYS website to reflect new information. A link to this data will enhance the ability of the user to make a fair assessment of the information.

Question 3

The PV is that inflows and outflows would be projected on a cash basis of accounting, and financial obligations should be projected on an accrual basis of accounting (CH4 p 8-12).

Do you agree with this view, why or why not?

We agree. The cash basis is currently the backbone of the budgetary process. However, this perspective may be modified based upon legislative discussions to support a GAAP based budgeting initiative. The accrual method is fine for financial obligations.

Question 4

The PV 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 projection periods. Furthermore, these assumptions should be: (CH4 p13-16)

- a. consistent with each other (where appropriate) and with the other information used as the basis for the assumptions
- b. comprehensive by considering significant trends, events, and conditions

Do you agree with this view, why or why not?

We agree and reiterate that the current budget process satisfies this view in an effective and efficient way. Moreover, additional information from prior years is also available online for the user to review and may assist in data analysis.

Question 5

The PV 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 (CH4 p 19-23).

Do you agree with this view, why or why not?

NYS does not uniformly project this fifth year. If necessary, NYS would take the initiative to find the resources and time to provide this data annually.

Question 6

The PV 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 (CH5 p 7-12).

Do you agree with this view, why or why not?

We agree, but think updates are essential, especially in times of uncertainty. There is risk of misunderstanding providing official projections of future financial conditions in a report established and opined on in a historical context. Readers who do not carefully read the report in its entirety may be confused or misled. The information in the CAFR is static and may contain dated projection information before the next CAFR is issued, potentially creating disagreement and discrepancies. This may result in a decrease in the value of the CAFR. A reference to the NYS online updates will be necessary to keep readers abreast of current developments.

Question 7

The PV is that all governmental entities should be required to report financial projections and related narrative discussions (CH5 p 13-14).

Do you agree with this view, why or why not?

We agree, only if use of existing data formats is allowed or this may be too large and costly of a project. The projections could be of service to some users who want more data and a disservice to others based upon potential user misunderstanding and the impact on timeliness. Any resources expended to reengineer and create a new format would sacrifice existing comfort and be wasteful. Similar data currently exists in NYS reports and the State periodically makes updated information available. The use of existing processes will promote timeliness and uniformity. This should also minimize costs and maintain value.

Question 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 government entities over certain dollar thresholds to implement first), (CH5 p13-14)?

If so, what phase-in criteria would you recommend, (CH5, p14)

Nothing at this time. The size of the task and effort required will determine the best approach. A shortage of resources (time, money, qualified people, etc.) may complicate the response especially if the Standard requires any duplication or reengineering of existing processes. Conversely, use of existing formats and procedures will require less effort and facilitate adoption.

Summary

Utilizing currently acceptable projection reports and placing abbreviated summaries in the CAFR may be an efficient and economic way to present much of the information GASB seeks to make available. Providing a web link for the reader that allows access to detailed support narratives and periodic updates will provide users with valuable and timely information.

Thank you for providing the opportunity to comment on this PV. If you have any questions or require further details concerning my comments, please feel free to contact me at (518) 486-1233.

Sincerely,

David J. Hass, C.A, C.

Executive Director
Bureau of Financial Reporting and
Oil Spill Remediation