



CITY OF EAU CLAIRE

FINANCE DEPARTMENT
Finance Administration
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Director of Research and Technical Activities
Project No.13-3
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: GASB Preliminary Views, Economic Condition Reporting: Financial Projections

Dear Director of Research and Technical Activities:

GASB has requested comments on its proposal to include five-year projections of cash inflows, cash outflows, and financial obligations as Required Supplementary Information (RSI). The stated purpose of including this forward-looking information is to better enable taxpayers, bond holders, and other interested parties to assess a government's financial health and its fiscal sustainability.

This proposal raises several concerns. Budgetary projections involve many suppositions and conjectures, unlike CAFRs which are based on financial facts. What will be the status of the national, state, and local economies five years from now? Will the state continue to reduce its funding for local governments? Will the state continue to impose levy limits? What wage and benefit concessions will we be able to negotiate with the labor groups? What will interest rates be? What will be the price of gas? These are just a few of the questions that each budget projection has to incorporate.

What GASB is overlooking is that budgets are political documents reflecting the budget priorities of the elected officials. It is safe to say that cities rarely go into a budget process anticipating that they will have enough money to cover future operations. So cities will either have to show expected shortfalls, that will result in unfavorable conclusions about the cities' sustainability, or will have to project fictional revenue increases or arbitrary service reductions to show balanced budgets. Although budgets are balanced each year when they are adopted, it is unlikely that elected officials will want to project over five years in advance that they will be adding new fees, raising the levies, or cutting services (i.e., police and fire). City councils make these tough decisions every year after they have held public hearings, exhausted all options, and are convinced there are no other options. While it is a good financial practice to prepare revenue and expenditure projections to help city councils understand the fiscal issues, it is not fair to add

these projections to RSI for the purpose of assessing the financial health of cities. Cities have options to deal with projected shortfalls. Responsible cities will close the financial gap each year, after due process. Bondholders, taxpayers, and other interested parties are better served by looking at the cities' current and past fiscal performances as reported in the CAFRs than at artificial budgetary projections.

Since budget projections involve so many variables, there is also concern about cities' liabilities to bond holders and other parties if the projections do not include all the factors that impact the financial conditions. Will cities be responsible for not anticipating a fiscal event that they should have known or that other cities included? Requiring the projections to be part of RSI increases expectations about the accuracy of the information and may lead to unwarranted reliance on the projections.

Budget projections can change dramatically from year-to-year, influenced by factors outside of local control. Changes in state and federal funding, natural disasters, and economic downturns will all impact projections. Will cities have to explain the differences in the five-year outcomes each year? Will they be asked to reconcile a five-year-old projection with the actual results of operations in the CAFR? Several cities are reducing administrative staff and are finding it increasingly difficult to maintain CAFR standards. Increasing RSI will add to the difficulties associated with preparing year-end financial statements in a timely manner.

These are some of the concerns that this proposal raises. I look forward to seeing a recap of the comments received on the Preliminary Views.

Sincerely,



Rebecca Noland
Finance Director