



City of Helena

Letter of Comment No. 59
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Director of Research and Technical Activities
Project No. 13-3
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Comments on Project No. 13-3

Please accept my comments on the Economic Condition Reporting: Financial Projections preliminary view. Overall I would like to state that I believe this is another example of GASB's efforts to impose another unfunded mandate that could never be deemed cost beneficial. While GASB is trying to address a problem that does exist, this standard will not solve it. The governments with financial problems will not provide reliable projections that allow users to identify them. The rest of us will suffer with greatly increased costs and delays in timeliness to implement these unreasonable requirements.

Furthermore, the CAFR should be held to a higher standard of information. Adding schedules prepared using our crystal balls will not enhance usefulness or accountability. This type of information would be better left in the budgeting realm where it is used currently by decision makers and citizens in a useable format.

Thank you for your consideration and please contact me if you need any clarification on my comments.

Sincerely,

A handwritten signature in blue ink that reads "Glenn Jorgenson". The signature is fluid and cursive, with the first name being the most prominent.

Glenn Jorgenson, CPA

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? Why do you agree or disagree?**
 - a. If this information is required the five components appear adequate.

2. **The Board's preliminary view is that financial projections should be (a) based on current policy, (b) informed by the 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?**
 - a. This appears reasonable on the surface but not in reality and depends on the definition of policy.
 - i. Many policies are established but often financial reality supersedes them. Two examples are:
 1. Do we include the effect of current policies we know we can't afford if State law requires us to have a balanced budget?
 2. Do we project using capital expenditures from capital improvement plans (CIP)? For example, our policies require an annual CIP plan even though they are more of a department wish list than feasible reality in many cases? Projects are constantly pushed out or reprioritized to balance each fund.
 - ii. Should anyone ever project an imbalanced fund if, for instance, a State law says we are to have a balanced budget even though in reality a government may be going bankrupt? What's required, showing a government plans on complying with State law or realistic financial projections based on current policy, historical information, and known events and conditions (one of which is State law)?

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 his view? Why or why not?**
 - a. I agree up to a point.
 - i. Showing cash basis separate from financial obligations does not present a total picture that allows someone to determine the health of a fund or government. The user needs a complete cash flow of "a" fund to make any reasonable decision.
 - ii. This section follows GASB's trend of requiring so many formats of financial information that no one can follow it or use it. Only a small number of individuals really understand information presented in CAFRs and providing a whole new analysis in a different format combining cash and accrual information in different schedules just adds to the confusion.
 - iii. The Board states it wants to use the cash basis as "...many governments may not have the additional resources needed to prepare projections of inflows and outflows on any other basis of accounting." Then the board goes on to require accrual projections for financial obligations. If many governments do not have the resources for inflow/outflow type of projections where would they get the resources for the more difficult projections?
 1. One major issue for governments, especially smaller ones, is the additional costs associated with obtaining financial obligations

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projections such as for OPEB and pension liabilities. It generally will not be able to be done by the local governments, requiring additional professional services costs, further reducing the cost-benefit.

- iv. Based on the examples given in the PV document it appears GASB has now come up with its own version of how budgetary information needs to be displayed having no correlation to how most governments currently budget that I have reviewed. Therefore this approach would require a great deal of time and effort by governments to implement and maintain.
- v. The examples provided in the PV do great disservice to any good this type of information could provide a user. For instance, most users needing this information would be related to debt. These users are generally looking at one individual fund. For example, the general fund for GO debt and one enterprise fund for revenue debt. The format proposed does not enhance the user's needs. Would any current user really want, or care about, projections for non-major special revenue funds or capital project funds since they generally have specific inflows for specific outflows and adequate information is available in the CAFR statements, schedules, notes and MD&A? Proposed capital projects projections would be very unreliable due changing needs. This is compounded by combining all non-major information into uninformative amounts titled "Non-major inflows and outflows" which would entail voluminous notes to explain.

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, Paragraphs 13 – 16). Do you agree with this view? Why or why not.

- a. If the information is required this would appear to be a relevant approach. However, just because GASB thinks governments with no principles will obtain them by including this language I think GASB is sadly mistaken. The only reason this PV could possibly be justified is due to governments that routinely prepare unrealistic budgets and projections. These governments will continue their unprincipled ways by budgeting and projecting unrealistic inflows and outflows until they are in so much trouble anyone can figure it out without this information.

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?

- a. I disagree. No budgetary information should be shown at all.
 - i. Projections are historically unreliable, especially for entities this PV is aimed at. As stated above, these governments are in poor financial health due to past and present inaccurate budgetary and/or projection methods.
 - 1. Please inform us how many Cities projected an economic recession or projected bankruptcy before it happened and how they were planning on dealing with it in their projections? IE Relevance of information is questionable.
 - ii. Better and more accurate information is presented in budget documents that

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are available and much more useful. IE Presented by fund and not combined in a format that is difficult to use at best.

- iii. Projections of financial obligations are already shown in adequate detail within the CAFR. For instance, debt is already detailed for the life of each issue, and OPEB is shown, but OPEB projections will be so speculative that it will be useless and not cost effective.
 - b. If required, five years may be reasonable for the general fund and major funds with debt service, but there is no reason to even show projections for any other fund. GASB definitely needs to identify the users and their needs that would justify this additional cost.
- 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?**
- a. I fully disagree.
 - i. RSI should be for information of a higher level of accountability.
 - 1. Projections are anyone's best guess and GASB's "Cautionary Note" shows the level to which it should be relegated. If you have to put a note like this in it should be a good indication it doesn't belong in the financial statements.
 - 2. The CAFR should be held to a higher standard. Un-auditable information should not be included in the CAFR. Auditors can currently look at reasonableness of information presented in relation to the financial statements, but would have no ability to make informed determinations on this type of information.
 - ii. If GASB requires this there should be a new section possibly called Financial Projections. The Cautionary Note should be expanded to include language stating the information is unaudited and the preparer assumes no responsibility if any user uses it to make any rational decision.
- 7. The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions (Chapter 5, paragraph 13 and 14). Do you agree with this view? Why or why not?**
- a. I disagree.
 - i. Cost prohibitive:
 - 1. audit costs would increase,
 - 2. costs for experts such as actuaries would increase, and
 - 3. preparation time would increase greatly.
 - ii. Erodes timeliness of information for any government, but especially for those that cannot afford more staff to meet this unfunded mandate.
 - iii. Unnecessary for most funds other than possibly the general fund and major funds backing debt. Even in these funds historical, actual results give users better information than someone's best guess of the future.
 - iv. Difficult to use format (funds should be shown separately for any usefulness, but that would require another book, which we already have called the budget).
 - 1. Presenting "Excess (Deficiency)...of cash flows as compared to cash outflows" is generally meaningless without showing beginning and ending cash or beginning and ending net assets. In other words, to be meaningful users need the full story.

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2. Large bond issues or capital projects that take years to expend are a good example in they may result in large deficiencies that don't reflect any problem.
 3. Adding in separate accrual and cash basis schedules adds to the confusion and makes true analysis difficult if not impossible.
 4. Adding pages of notes to explain five years of projections will just add voluminous, useless information that can change before it goes to print.
 - v. Users, I believe, would be mainly debt purchasers, dealers or rating agencies and I don't feel this would meet their needs.
 1. Budgetary information is generally already available to meet their needs.
 2. If not, this information can be required as necessary in debt covenants.
 3. GASB's approach makes it difficult for the real users to identify if the fund/program backing the debt is having difficulties by combining the information into a format that is difficult to use by even knowledgeable users.
 - vi. GASB's approach to quantity over quality needs addressing. In other words, making a book bigger that few use or understand doesn't mean it is making it more useful. This appears to be an example of GASB finding a way to justify its existence rather than trying to find a way to make a CAFR useful.
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)?**
- a. If GASB requires this reporting a long phase in period should be established:
 - i. Only the largest governments should have to implement it, if at all.
 - ii. Smaller governments should only have to implement it if, after many years, the information has proven to be useful to enough users to make it cost beneficial. This should be clearly demonstrated by GASB using clear, documented analysis, and identifying the users and their perceived needs that are not being met any other way.