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Director of Research and Technical Activities
via e-mail at director@gasb.org

RE: Preliminary Views on Economic Condition Reporting: Financial Projections Project No. 13-3

Members of the GASB:

I am the Finance Director for the City of Corvallis, Oregon, a medium-sized city of around 55,000 people. I have 23 years of public finance experience, and in that time I have never found a need to respond on a PV, ED, or any other GASB pronouncement. However, I find myself compelled to write a response to the Preliminary Views on Economic Condition Reporting: Financial Projections Project No. 13-3.

I will attempt to first address the questions you specifically ask for responses to address, and then provide some final, overarching comments:

1. I generally agree with the five components necessary to assess the fiscal sustainability of an organization as outlined in the PV 13-3 document. I believe that all five points define important information for staff and for outside entities looking at the future fiscal position of an organization. The City of Corvallis uses these component pieces in developing its annual financial plans for each of its twenty-one funds.
2. I generally agree that future year projections should be based on current policies, informed by historical trends and adjusted for known events expected to occur during the projection period. This methodology is what the City of Corvallis uses in its financial projections; I believe it best meets the users' expectations for a well informed financial projection as long as the assumptions underlying the projections are stated.
3. I do not agree that inflows and outflows should be projected on a cash basis of accounting. The City of Corvallis makes future year financial projections on a modified accrual basis as part of the budget process and discussion each year. Future year financial projections are an important part of the budget process, in particular as the City attempts to follow best practices and look at long-term financial impacts from short-term decisions. As we have spent the better part of the last year working with our City Council on how they define financial sustainability we have actually moved the financial plans farther away from a "CAFResque" income statement format into a budgetary financial plan format that focuses on reoccurring revenues versus reoccurring expenditures. This will mean that financial plans (particularly historical data) will not match CAFR presentations on a line item basis without doing some arithmetic (likely for individual lines of

revenues and expenditures), though the bottom line will match. If we were to now publish financial statements on a cash basis in the CAFR it would mean two published documents of financial projections that do not match each other; I believe this will increase the confusion levels for every reader of the City's financial documents. I also believe that the level of staff work would increase significantly to move from the modified accrual format for the budget to the cash flow format for the CAFR, not to mention to move from individual fund projections to an entity wide projection. At a time when we are cutting staff (the third year of budget cuts coming for FY 12-13) we will simply not have the staff resources to do this set of modifications.

4. I generally agreed with the statement in #4, that assumptions made for financial projections should be internally consistent and on a principles-based approach. However, there are times when a single set of assumptions may have a set of counter-intuitive results that can be explained, but not always in a concise fashion. I believe there has to be room in the financial projections to take the same piece of data and state when some factors in the budget will behave counter to others – people with knowledge of their entity's circumstances can explain this situation, but it may require more detail than seems to fit within the examples included in the PV. I will also note that as it refers to labor negotiations, stating expenditures will rise by X% based on historical trends may very well tie the government's hands in negotiations as labor states "see, the money is in the budget . . ." In my personal experience this has been the case up until we decided to not show any increases for labor in future years even though our historical trends would belie that decision.

5. I do not agree that five year financial projections are a good time period. In my professional career I have worked with financial projection periods of ten, seven, five, and three years. Regardless of the cautions stated in the assumptions, every decision maker focuses on the ending fund balance of the final year of the plan and then makes decisions as if that financial projection is set in stone. If the plan projects an excess, the decision is to spend the excess now even though staff may have many cautions about how the excess may not come to fruition. If the plan shows a deficit, the political panic ensues and significant budget cuts are made to bring the final year into balance. I have found that with a three year financial planning period the City of Corvallis's future year projections are proven to be more accurate when the third year becomes the budget year; with five year projection the level of accuracy declined significantly. I have also found that the three year period allows for more frequent broad-based changes in assumptions as a new Council is elected and makes significant changes in the organization's focus, the legislature or Congress acts to change rules/ implement new mandates, a new statewide voter-approved initiative impacting revenues or expenditures occurs, or something occurs during labor negotiations changes that significantly changes future year assumptions.

6. I do not agree that financial plans should be included in the Comprehensive Annual Financial Report. The Budget is the process that looks ahead and is where policy decisions are made that impact the revenue and/or expense curve for any organization; as such, it is the appropriate place for financial projections to be included. The CAFR is a look back that only answers the question of what resources were received and what were expended. Since the CAFR does not even speak to what was planned to be accomplished compared to what was accomplished, it seems like the wrong vehicle to suddenly add forward looking information. Furthermore, though I know and like many auditors, placing forward looking financial statement in the CAFR as RSI will only increase staff time and audit costs. At a time of extreme fiscal duress, when government units across the United States are significantly altering their books of business to fit within the "new normal," adding auditing costs to have financial plans meet auditing standards does not add value for the organization.

7. I do not agree that all governmental entities should be required to report financial projections and related narrative discussion in the CAFR. Though it may be true that large organizations have staff on hand to do this level of work, even my own department would be hard pressed to meet the RSI production as

identified in the Preliminary Views document. I cannot imagine smaller entities, where Finance Department staff may consist of only one or two people with basic bookkeeping training, being able to meet this requirement. Though I agree that providing future financial projections is a best practice for any entity, the reality is that to do a good job of financial projections requires a dedicated, well-trained, entity knowledgeable staff. As with the GASB's push on Services Efforts and Accomplishments, publishing forward looking financial plans may be a best practice, but one that should be left to each entity to determine for themselves.

8. I do not believe this Preliminary View should move forward, so no, I do not believe a phase in period of any kind should be implemented. If you must, do so for State governments that have the depth and breadth of staff to meet this kind of objective and skip smaller units of government.

In closing, I have the following comments from a broad-based perspective:

- ❖ Fundamentally, a financial plan is a projection that begins with the assumption that all revenues and programs/services will continue as they currently exist. If there is anything that all we know it is that nothing stays the same and something will occur in the next six months that will change the financial projections.
- ❖ Future year financial projections are, above all else, political documents. They are used by the policy makers to pursue political agendas. As such, they should not be subject to the audit process where political will is not an auditable factor.
- ❖ I have no experience with bond rating agencies or bond holders seeking future financial plan projections. In fact, ratings agencies don't seem to read our current financial plans, which are published in our budget document each year, with stated assumptions. They know that at the local level we are required to have a balanced budget and will do what we must to address imbalance, if it occurs. Their focus in surveillance calls is on the current and the coming budget year. Financial projections even three years out are ghosts which are not acknowledged as being real numbers.
- ❖ I also take exception with the idea that we would provide a future financial projection on an entity-wide basis. The GASB, above all others, should know that individual fund operations have unique pressures, and that solutions to those pressures will be unique to the operation. The idea that we could clearly and concisely sum up in a few meaty pages the hundreds of assumptions we make about each revenue and expenditure stream in each fund and have it make any sense is approaching ludicrous. In addition, troubles in one fund may very well be hidden in an entity wide financial plan, whereas in the separate fund plans we work on through the budget process these issues pop off the page in seconds. This also means that the problems are being addressed proactively as future year planning occurs for the specific problem, not after the audit is all done.
- ❖ Finally, I would say that everyone I know who makes future year projections does so in a spreadsheet – there is no financial system that easily models multiple future year assumptions on utility rates, legislative impacts, labor relations issues, etc. in multiple funds and then adds all that together to provide an entity-wide projection for five years into the future. However, if you approve this PV, I can see software firms rubbing their hands in glee – to develop the application that would allow these projections, and then charge governmental entities (which have their hands tied) to purchase the new application would be great for their bottom lines – lousy for ours.

So, to summarize, as I read this PV I see full employment for auditors and software firms, a bond market that does not look for this information, and higher costs to taxpayers for something which is not value added to them. I think you could say I emphatically do not support this project.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nancy Brewer', with a long horizontal flourish extending to the right.

Nancy Brewer
Finance Director