

**From:** jeff.dewitt@phoenix.gov  
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**Subject:** City of Phoenix Comments on Project No 13-3 (Financial Projections)


David R. Bean  
Director of Research and Technical Activities  
Project No. 13-3

In regards to the Preliminary Views for Economic Condition Reporting: Financial Projections, the City of Phoenix is strongly opposed to making these projections a part of the required supplementary information (RSI). Our main issues revolve around the subjectivity involved in the preparation of any forward looking analysis, the additional cost related to the preparation of the projections, and the confusion to citizens, investors and policy makers resulting from the comparison of in-depth forecasts developed routinely by the City and the limited constraints of the preliminary views projections.

We believe that comprehensive financial planning is essential for any government and that financial planning documents should be available to the public. However, we believe the Annual Financial Report (AFR) and Comprehensive Annual Financial Report (CAFR) should remain comparable, accurate presentations of historic and present financial condition and that forward looking documents should be kept separate. Therefore, we agree with the alternative view presented in Chapter 6 of the preliminary views that the role of the AFR and CAFR is to present accurate historic data from which informed users can base their own assumptions as to what that means for the future. As such, we agree that the relevant information should be moved from the statistical section to RSI, and that it is important to point users to the entity's budgets.

The attached document presents in more detail our concerns relating to the Preliminary Views. Please contact myself, or Denise Olson, Assistant Finance Director, at 602 261-8343 if you have any questions or need any clarification regarding our comments.

Thank you for your consideration.

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## **Comments on Preliminary Views**

### **Economic Condition Reporting: Financial Projections**

The City of Phoenix, Arizona (the City) had agreed to participate in the field test for the Preliminary Views on Economic Condition Reporting: Financial Projections, however, due to staffing and time constraints we were unable to complete the field test. In our research of the preliminary views and what it would take to put together the required schedules we did have several concerns with the position of the board and those concerns are addressed below.

The City does not agree with presenting financial projections as part of the required supplementary information (RSI). The following issues have led us to believe that presenting five year projections as RSI in the CAFR would be confusing and costly and provide little benefit.

- **Subjectivity of Projections**

We agree that the five components of information that the Board identified as necessary to assist users in assessing a governmental entity's fiscal sustainability are valid. However, we consider the development of that information to be a subjective assessment of a unit's future financial position and therefore restricted from inclusion in RSI based on Concepts Statement 3, paragraph 44. The subjectivity stems from the ability to determine what and how historic trends are relevant, and what the actual impact of known events will be during the projection period.

For example, should a governmental entity use a thirty year historic trend of 3% growth or a four year historic trend of 1.5% decline. The answer depends on whether or not you believe the decline is temporary and will reverse in the projection period. In other words, it is a subjective view of future events. Similarly, if a government is highly dependent on a particular industry and there has recently been an introduction into the market that could make that industry obsolete, does the government project severe declines that would result from the obsolete industry, continue the historic trends that were occurring before the new product was introduced, or anticipate that the industry will be able to reengineer to maintain its stability? Again, these are all subjective judgments about what will occur in the projection period.

- **Confusion between Forecasts and Projections**

Currently, the City provides five to ten year financial plans that include comprehensive revenue and expenditure forecasts for the Aviation, Water, Wastewater, Convention Center, Public Transit, and Public Works departments as well as for the Property and Excise Taxes as part of our bond programs. These forecasts include extensive analysis of future economic changes and are reviewed for reasonableness of the assumptions included. Per the preliminary views, the projections would have to be based on historic trends, known events, and current policy.

The current trend for the City of Phoenix is that the Housing Market is suffering from 25% annual value declines, however, most economists agree that this will not continue and that the Market will start to see recovery in late 2012 and probably see a small spike in recovery in either 2014 or 2015. While we take the economist's viewpoint into consideration for the forecasts that we prepare, we would not be able to consider that in the projections, resulting in significantly different analysis of performance in the projection period. We think this would not only be confusing to the citizens, investors and policy makers, but would also be providing overly simplistic information in the CAFR. While it is true that the forecasts and the assumptions behind them are subjective and may fail to address all economic issues, it is irresponsible to approach a future view of the entity under the assumption that the economic environment will not change at all.

- **Relevance of past Policy Maker's decisions to future Policy Maker's decisions**

Per the Preliminary Views, one of the goals of the projections is to help users assess the entity's ability and willingness to make decisions that will keep it fiscally sound. However, in a political environment where leadership can change substantially and where budgets are usually limited to one year, it is not possible to predict a future government's decisions based on past performance. Therefore, it would be more reasonable to provide the historic data to the user and allow the user to assess the political environment and the potential impact that will have in the future.

- **Comparability of Reports**

One of the goals of AFRs and CAFRs is to produce comparable information among governments. With the amount of subjectivity inherent in future projections, it would be unrealistic to expect comparable results.

- **Cost vs Benefit**

Finally, we believe that many governments will not have the expertise to assess future conditions and will therefore have to contract out the projections at additional cost to governments that are already struggling with tight budgets. Even for governments with the expertise on staff to prepare the projections, because the projections will be limited and cannot mirror the forecasts, additional staff time will be required at potentially significant cost. We also feel that the additional cost will provide very little benefit because a projection that does not take into account anticipated changes in the economic and political environments does not accurately present the whole picture.

Since those changes in the economic and political environments are not known, we believe that CAFRs and AFRs should continue to present only accurate historic information. By providing the historic trends and identifying the relevant current policies and known events we are giving the

users the tools that they need to assess the fiscal sustainability of the entity. The users will look at the economic and political environments and make their own assumptions as to the impact of the trends and current policies.

We believe that comprehensive financial planning is essential for any government and that financial planning documents should be available to the public. However, we think the Annual Financial Report (AFR) and Comprehensive Annual Financial Report (CAFR) should remain comparable, accurate presentations of historic and present financial condition and that forward looking documents should be kept separate. Therefore, we agree with the alternative view presented in chapter six of the Preliminary Views. We believe that the relevant data is currently being presented in CAFRs and would be in favor of moving the historical trend information from the statistical section to RSI for both AFRs and CAFRs. We also agree that the best measure of future intent would be to require information on how to access the governmental entity's current budgets.