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From: John Daugherty
Sent: Saturday, February 18, 2012 1:24 AM
To: Director - GASB
Subject: Economic Condition Reporting: Financial Projections

February 18, 2012

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

Dear Director,

The Governmental Accounting Standards Board (GASB) has issued its Preliminary Views on Financial Projections stating that it believes local and state governments should be required to provide financial projections for five years into the future when filing reports with the GASB. Such projections would be adjusted for known events and would include cash inflows, outflows, financial obligations, annual debt service payments and a narrative describing major intergovernmental service interdependencies and their nature. I oppose the implementation of this additional requirement. While the purported benefit of this requirement is to allow users of governmental financial data to better assess the “financial health” of certain governmental entities, it fails to address the human capital required in order to comply with these new rules. State and local governments, already reeling from decreased tax revenues because of the economic downturn which began in 2008 would find themselves having to further overextend existing employees or possibly hire additional employees to comply with the new requirements. This could cause tax increases at a time when some citizens can barely keep a roof over their heads. Also, the GASB does not state whether this would require additional employees within its own organization which, if necessary, would further increase an already bloated federal payroll. This is, in some ways, consistent with the Alternative View presented in the Preliminary Views document wherein two Board members question the cost-benefit relationship of the new requirements. Continuing with another point stated in the Alternative View, while it is certainly advantageous for users to have the best financial information available when evaluating potential financial transactions with governmental entities, that information is available through the current reporting process. Further, according to GASB, projections would be (1) based on current policy, (2) informed by historical information and (3) adjusted for known events and conditions that effect the projection period. However, GASB goes on to state that the Cautionary Notice, which would be part of the new requirements, should read: “Financial projections may be based upon assumptions regarding changes in social, economic, and demographic events and conditions that are inherently subject to uncertainties. Therefore, readers are cautioned that actual future financial results of [government name] may be significantly different from the financial projections that are reported” which effectively renders the evidence submitted to support the projections moot.
At their very core, the projections are flawed if for no other reason than they are subject to unforeseeable events. Therefore, why spend the additional money and human capital to implement them? If certain users are attempting to assess the financial health of a governmental entity, then those users should be talking
directly to that entity, or a credit rating agency, or an analyst whose research should go well beyond the paperwork filed with GASB.

Another potential flaw is the accountability for the projections presented. Will City Managers and Directors of Finance as well as Mayors and City Council members have to endorse and sign off on these financial projections at the local level? What about Governors and Comptrollers at the state level? Will civil or criminal penalties apply if the projections are wrong? Who will be held accountable and what will the penalties be for non-compliance? The answers to these questions are not addressed in the Preliminary Views but I believe they would have a significant impact on the willingness of local and state finance departments to support the implementation of these new rules. Without this support, the new requirements will likely result in submissions that are incredibly conservative and that do not improve the ability of users to evaluate a governmental entity's financial condition.

Finally, while I believe that projections would certainly give users a better sense of security about potential investments, I would prefer that they were voluntary. If an entity is willing to submit such supplementary information to GASB, they will certainly be more attractive to investors and in time, I believe that all entities would voluntarily submit such information in order to make themselves more attractive to potential investors. The downside to not submitting such information could be higher interest rates on that entity’s new debt or higher rates if they attempt to refinance existing debt.

In conclusion, while the additional requirements might satisfy the desire of some users for more information in order to make a better financial decision regarding the health of governmental entities, there are many potentially negative effects and unanswered questions regarding implementation and enforcement and for those reasons, the additional requirements should not be implemented by GASB. I appreciate your consideration in this matter.

Yours truly,

John Daugherty
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Any opinion expressed above is the sole opinion of the sender and in no way should be construed as representing the opinion of the mayor, any other member of council, or any city personnel.