March 8, 2012

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

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

Dear Director,

Please accept the following response from the City of Valdez, Alaska. The City of Valdez is responding to Governmental Accounting Standards Board’s (GASB) request for written comments to Preliminary Views Project No. 13-3: Economic Condition Reporting: Financial Projections.

Overall. The City of Valdez believes that, while projections may aid in assessing a governmental entity’s fiscal sustainability, they do not belong in the audited financial statements. We are concerned that projections published in the audited financial statements may be misleading and cause users to have false expectations about the future performance of the government.

The City of Valdez believes that these projections could have a negative impact on the governmental entity because many users would neither read nor understand the cautionary notice and may rely on these projections as facts. This could adversely affect the entity during bargaining negotiations, election years, debt issuance, and various other situations. Many governmental entities have bargaining agreements, which could be adversely affected in negotiation years. Also, there may be political pressure from those charged with governance to omit unfavorable information in election years.

The City of Valdez believes that this standard, if enacted, will be burdensome for governmental entities. The benefits to the users of the audited financial statement do not justify the additional costs associated with compiling and reporting these projections since the information that is necessary to calculate these projections is not currently available for most governmental entities. Further, this potential standard will delay the issuance of financial statements when users are requesting more timely reports.

The City of Valdez believes that this standard, if enacted, should be made voluntary only, like the service efforts and accomplishments reporting.

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The City of Valdez is in agreement with the ALTERNATIVE VIEW as described in Chapter 6.

Below are the responses to the Questions in the Preliminary Views.

**Question 1.** The City of Valdez agrees with the components of fiscal sustainability, with the following comments and concerns:

- **Component 1** – The City of Valdez is concerned about the variability in grant revenue for small governmental entities. Grant revenue may be difficult to predict from year to year.

- **Component 4** – The City of Valdez understands the usefulness of projections of annual debt service payments, but this information is already included in the audited financial statements with the exception of the authorized but unissued debt. Authorized but not yet issued debt should be included in a subsequent event footnote. We understand that current standards do not require disclosure of the magnitude of the next five year’s payments for authorized but unissued debt but, users of the financial statements should understand that annual debt service payments may be increased. Repeating the annual debt service payments in the projections section is redundant.

- **Component 5** – The City of Valdez believes that GASB 61 takes care of some of the assumptions and effects of fiscal interdependencies that exist between various governmental entities.

**Question 2.** The City of Valdez agrees with the preliminary view that financial projections should be (a) based on current policy, (b) informed by historical information, and (c) adjusted for known events and conditions that affect the projection periods. In general, we believe that this will take away some speculation inherent in the projections because they will be based on current policies not potential policies.

**Question 3.** The City of Valdez agrees that inflows and outflows should be projected on the cash basis of accounting, and financial obligations should be projected on the accrual basis of accounting. We believe that it should be easier to project financial obligation information on the accrual basis of accounting and everything else on the cash basis of accounting.

**Question 4.** The City of Valdez agrees that the financial projections should be guided by a principles-based approach. In general, it would clearly be difficult to set forth guidelines for every situation. We are concerned that although a principles-based approach is easier for reporting purposes, comparability between governmental entities will be impossible as the assumptions are subjective and would not be consistently applied across governmental entities.

**Question 5.** The City of Valdez agrees that a minimum five years of projections beyond the reporting period is adequate. However, we are concerned that many governmental units do not have the resources to prepare these projections on an annual basis.

**Question 6.** The City of Valdez disagrees with the preliminary view that the components of fiscal sustainability should be required and communicated as required supplementary information. As stated above, we believe projections should not be required in the audited financial statements. The City of Valdez believes this additional information will result in significant additional time and significant additional cost to the external audit.
Question 7. The City of Valdez disagrees with the preliminary view that all governmental entities should be required to report financial projections and related narrative discussions. As stated above, the City of Valdez believes projections and the related narrative should not be required or presented in the audited financial statements.

Question 8. The City of Valdez believes that, if this standard is enacted, a phase-in period would make implementing the reporting requirements for projections easier on governmental entities. We believe the thresholds for GASB 34 were appropriate and should be continued for purposes of this potential standard.

Summary. The City of Valdez agrees with the alternative view in Chapter 6. We believe that the benefits of this potential standard do not justify the additional costs of staff resources, potential increased audit fees, and the potential adverse affect on the timeliness of the audited financial statements. If enacted, these standards should be made voluntary.

We appreciate the opportunity to provide input on the Preliminary Views.

Sincerely,

Walter Sapp
Finance Director