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March 9, 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: Comments on Preliminary Views Project No. 13-3: *Economic Condition Reporting: Financial Projections (PV)*

Dear Director,

In this environment of constrained resources, I am making a conscious choice to spend a limited amount of time on the formality of my response. As a long-standing government finance official who will be implementing any requirements eventually resulting from this due process, I feel it is more important for me to convey my comments informally, than to not do so at all because of resource constraints in preparing a more formal response.

First, I would like to formally go on the record as supporting most of the comments submitted by Walter Sapp, President of the Alaska Government Finance Officers Association (AGFOA). I've attached a copy of his letter. In addition, following are my own comments regarding GASB's Questions for Respondents.

1. Components for Assessing Fiscal Sustainability

Component 1 – Our revenue from various taxes and our investment earnings, among several other inflows and outflows, are largely dependent on the economy. Projecting these will require predictions to be made on the local, regional, national, and global economies. We are accountants and finance professionals. Few of us are economists. And, needless to say, many economists have not been getting these economic predictions correct for some time. How can we be expected to do so? And if we are not expected to do so, then what is the value of the projections we are making on the economy-dependent inflows and outflows? Furthermore, many of our inflows are from the State and federal governments. Those inflows can vary radically from one election to the next. Predicting those changes would be unsubstantiated guesses.

Component 2 – Future inflows and outflows are greatly dependent on the political leanings of the majority of the elected officials in our government. The political leaning of the majority changes every year with every election, some years more drastically than others. Folding in predictions of future political outcomes is highly speculative at best and more often than not will result in erroneous predictions. Again, what is the value of such predictions?

Component 3 – Since our government’s pension and postemployment benefits are provided by the State (PERS) , we will now be in the position of having to predict how the State (both the executive and legislative branches) will act in the future with regards to the PERS. Once again, predicting the future political outcomes of another, larger governmental entity is highly speculative and what value is there in such predictions?

Component 4 – Projections of annual debt service payments for issued debt is already disclosed in the CAFR.

Component 5 – Many service interdependencies are rooted in financial interdependencies which are already adequately disclosed under existing GAAP related to the reporting entity.

2. Projections Based on Current Policy, Historical Information, and Known Events/Conditions

(a) Current policy is based on the current political leaning of the majority of the elected officials of our government. It is highly unlikely that the majority will remain of the current political leaning for five years. My key objection to this basis can be quoted directly from the PV: “... it is important to note that projections based on current policy do not represent a forecast or a prediction of the most likely outcome.” This entire projection of inflows and outflows is premised on a basis that does not reflect the most likely outcome. I feel strongly that this is in direct conflict with what the readers will be expecting and will be outside the realm of what they will understand, leading readers to be misled and confused. In my opinion, this strays considerably from the goals of a transparent and accountable government and a government’s finance professionals should always be in the position of promoting transparent and accountable government, not degrading it with misleading and confusing information.

(b) and (c) I have no comment on these.

3. Inflows and Outflows on Cash Basis / Financial Obligations on Accrual Basis

For projection purposes, I think these should all be on the same basis (cash), with disclosure of the financial obligations on an accrual basis. I think it would be confusing and misleading to the reader to use two different bases, particularly if the government budgets and makes disbursements on a pay-as-you-go basis for a specific financial obligation.

4. Consistent (where appropriate) and Comprehensive Principles-Based Assumptions

I believe that basing assumptions on known events and conditions could, at times, be mutually exclusive with considering significant trends.

5. Five Years of Annual Financial Projections

I disagree with this view. For our government’s annual budget, we are already predicting 18 months out and for some revenues and expenditures, it is with great difficulty and uncertainty that this is accomplished. On a couple of items, we have

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significant budget-to-actual variances as a result. Extending this out to five years will just compound this problem.

6. All Fiscal Sustainability Components Are Essential and, Therefore Required

I vehemently disagree with this view. See my comments to the other questions and the AGFOA's comments letter. I agree with the Alternative View in Chapter 6 of the PV.

7. All Governments Should Be Required to Report Financial Projections and Narratives

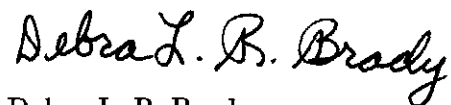
I vehemently disagree with this view. See my comments to the other questions and the AGFOA's comments letter. I agree with the Alternative View in Chapter 6 of the PV.

8. Phase-In Period for Implementation of Reporting Financial Projections and Narratives

If this eventually is forced on us, then, absolutely, it should be phased in. Furthermore, the smallest entities should be totally exempted.

In closing, both the monetary and non-monetary costs of implementing five-year projections as required supplementary information far outweigh any benefits from this requirement. Projections reporting, if adopted, should be voluntary.

Sincerely,



Debra L. R. Brady
Controller

Attachment

c: Michael E. Lamb, Chief Financial Officer

Attachment to March 9, 2012 Letter from Debra L. R. Brady,
Controller, Fairbanks North Star Borough, Fairbanks, Alaska



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

Dear Director,

Please accept the following as the official response to **Preliminary Views Project No. 13-3: *Economic Condition Reporting: Financial Projections*** on behalf of the Alaska Government Finance Officer's Association (AGFOA) as per your request for comment.

The AGFOA believes that, while financial projections may aid in assessing a governmental entity's fiscal sustainability, they do NOT belong in the audited financial statements. The inclusion of such projections in audited financial statements may be misleading and cause users to have false expectations about the future performance of the government.

The AGFOA believes that these projections could have a negative impact on the governmental entity. Many users would neither read nor understand the cautionary notice and may rely on these projections as fact. Such projections could adversely affect the entity in 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 AGFOA 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 at a time when users are requesting more timely reports.

The AGFOA believes that this standard, if enacted, should be made VOLUNTARY ONLY, like the service efforts and accomplishments reporting.

The AGFOA is in agreement with the ALTERNATIVE VIEW as described in Chapter 6.

Below please find the specific comments to Questions posed to respondents:

Question 1. The AGFOA is generally in agreement with the components of fiscal sustainability, with the following comments and concerns:

Component 1 – Some members are 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 AGFOA 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 committee believes that *GASB 61* takes care of some of the assumptions and effects of fiscal interdependencies that exist between various governmental entities.

~~Question 2. AGFOA members agree 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, committee members 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. AGFOA members agree 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. Committee members 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. AGFOA 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. The committee is 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 AGFOA members agree that a minimum five years of projections beyond the reporting period is adequate. However, we are concerned that many governments do not have the resources to prepare these projections on an annual basis.~~

Question 6. AGFOA members disagree with the preliminary view that the components of fiscal sustainability should be required and communicated as required supplementary information. As stated above, the AGFOA believes projections should not be required in the audited financial statements. We believe this additional information will result in significant additional time and significant additional cost to the external audit.

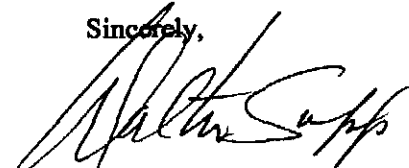
Question 7. AGFOA members disagree with the preliminary view that all governmental entities should be required to report financial projections and related narrative discussions. For the reasons stated above, the AGFOA believes that these projections and the related narrative should not be required or presented in the audited financial statements.

Question 8. AGFOA members do believe that, if this standard is enacted, a phase-in period and threshold limits (such as that used with GASB 34 implementation) would be appropriate.

In closing, the AGFOA 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

Alaska Government Finance Officer Association President