Letter of Comment No. 169 File Reference: 13-3PV Date Received: 4/9/12

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April 9, 2012

Mr. David Bean
Director of Research and Technical Activities, Project No. 13-3
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean and members of GASB:

Thank you for this opportunity to comment on your Preliminary Views on *Economic Condition Reporting:* Financial Projections. Multi-year financial projections are essential to evaluating the fiscal sustainability of governments, and to managing governmental finances in a sustainable way. We applied you for putting this on your research agenda.

Paul Volcker and I are concerned about the fiscal sustainability of state and local governments – about their ability to deliver services their citizens desire and to honor promises to their employees, bondholders, and others, at costs taxpayers can reasonably pay. That's why he and I started the Task Force on the State Budget Crisis.

Our task force is taking a detailed look at the financial condition and outlook in six study states - California, Illinois, New Jersey, New York, Texas, and Virginia – and the environment in which they make their fiscal decisions. Among other things we're looking at the extent to which they develop, publish, and use multi-year financial projections in their budgetary decision-making.

It is virtually unimaginable that a government could enter into a 10-year lease commitment, or make a 30-year promise to bondholders, or promise future health benefits to a 25-year-old worker that might be paid 60 or more years into the future, and yet publish projections that run only one year ahead. Sadly, this is the case with many governments – they either do not prepare longer-term projections, or prepare but do not publish them, or, sometimes, publish but ignore them in decision-making.

When a government gets into financial trouble, one of the first things we do is require multi-year projections and, often, multi-year planning. It is what we did in the New York City fiscal crisis of the 1970s. It is what the federal government did when the District of Columbia was in fiscal crisis. It is what Judge Mark Pfeiffer required when he became receiver in Central Falls, Rhode Island.

But it is too late, and wrong, to wait until fiscal trouble compels this. It is far better to avoid trouble in the first place. Multi-year projections and plans are an essential tool that can help governments avoid

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trouble and that can help the public understand whether they can afford what their government has promised.

Our task force understands this. I was deeply involved in solving the New York City fiscal crisis. Our executive director, Don Boyd, was on your economic condition reporting task force and spent many years preparing New York's longer-term projections. Ed DeSeve, one of our core team members, helped design the rules by which the District of Columbia must manage its finances. Don Kummerfeld, also a core team member, was the New York City Budget Director in 1976-77 who implemented the four year financial plan that brought the City back to fiscal sustainability and later served as executive director of New York City's Emergency Financial Control Board.

I recognize that there are serious issues involved in requiring financial projections in CAFRs. Many governments and their associations are opposed. Many of those same governments and associations are wholeheartedly in favor of multi-year projections, and some even favor multiyear planning. But then, I look at the real world, and see very little of it. I do think governments need to be encouraged to do this, and that standards or guidance are needed. Model procedures are good but not enough – a push would be very valuable. I look at who can give that push: no organization with national scope, except GASB, appears able – not the SEC, not rating agencies or financial markets, not governmental associations, and certainly not the federal government. And very few state or local legislative bodies appear willing to require it.

I take the opponents' arguments against inclusion in CAFRs seriously. Maybe their arguments will carry the day. But if so, they should commit to developing standards and guidance that governments would be strongly encouraged to follow in financial planning and management rather than financial reporting.

Thank you again for your work on this important issue, and for this opportunity to present my views.

Sincerely,

Richard Ravitch

Co-chair