



Guiding Portfolio Strategies

MCDONNELL INVESTMENT
MANAGEMENT, LLC

April 9, 2012

Director of Research and Technical Activities
Project No 13-3
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: Preliminary Views on Economic Condition Reporting: Financial Projections

Dear Director of Research:

McDonnell Investment Management, LLC is grateful for the opportunity to provide its input on the Governmental Accounting Standard Board's (The Board) Preliminary Views on Economic Condition Reporting. As an institutional investor in the municipal market responsible for managing over \$8 billion in municipal bond assets, we applaud the Board's initiative to improve the quality and utility of financial statements prepared by governmental issuers.

We believe that the investment user community would benefit substantially from the proposed principles approach to assessing a government's economic condition as such a review could result in a view that may differ from an examination of the most recent audit period. The current practice of governmental financial reporting has made investors especially vulnerable given the long time lag in which audits are actually received by the users after the close of the fiscal year. We believe that the challenge of achieving this goal will ultimately prove beneficial to municipal bond investors as well as the municipal bond market as a whole.

Our responses to questions asked by the Board for the purpose of receiving feedback on the Preliminary View are presented below:

1. The Board's preliminary view is that there are five components of information that are necessary to assist users in assessing a governmental entity's fiscal sustainability: total cash inflows, cash outflows, financial obligations, annual debt service payments and intergovernmental service interdependencies. Do you agree with this view? Why or why not?
 - a. We agree that these are the major forward looking influences that, if known, might alter one's opinion of an issuer's credit quality.

- b. The most important aspect of compiling the projections is the provision that each project be accompanied by explanations of known causes and assumptions of fluctuations.
 - c. We assume that the major sources of cash flows also include any significant planned drawdowns of reserves or transfers from other intergovernmental funds.
 - d. We believe that significant planned expenditures, such as debt service and pension contributions, are already estimated by governmental entities mitigating the cost of applying these items to the projections. Relative to other inputs to the projections, we are looking for simple, reasonable estimates based only on known factors that preclude a more costly exhaustive assessment for projection purposes.
2. The Board's Preliminary View is 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. Current policy includes policy changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods. Do you agree with this view? Why or why not?

We especially appreciate the focus of this view that projections need only be based on tangible, known factors that do not involve speculative predictions. We believe that limiting the scope and time horizon of the projections should help simplify the guidance for the report and make it easier to implement.

3. The Board's Preliminary View is that inflows and outflows should be projected on a cash basis of accounting, and financial obligations should be projected on an accrual basis of accounting. Do you agree with this view? Why or why not?

We concur with the Board that this approach appears to lead to more conservative projections. As projections are estimates, we believe that investors are better protected by an approach that is more inclined to underestimate inflows and overestimate outflows.

4. The Board's Preliminary View is that the identification and development of assumptions for making financial projections should be guided by a principles-based approach. Such an approach would set forth principles that require assumptions to be based on relevant historical information as well as events and conditions that have occurred and affect the projection periods. Furthermore, these assumptions should be (a) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (b) comprehensive by considering significant trends, events, and conditions. Do you agree with this view? Why or why not?

We strongly agree with a principles-based approach in that we believe that the ultimate goal is to develop common sense, good faith projections that allow the preparer some leeway in identifying significant issues to be factored into the presentation, as long as the assumptions are clearly noted.

5. The Boards' Preliminary View is that annual financial projections should be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting. Do you agree with this view? Why or why not?

The Board's Preliminary View makes a good case for five years based on its justification that at least that much time is needed to provide a proper sense of fiscal sustainability as well as the diminished reliability of projection longer than five years.

6. The Boards' Preliminary View is that all of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore should be required and communicated as required supplementary information. Do you agree with this view? Why or why not?

We are satisfied with the placement of the projections component of the financial statement in the required supplementary information. As long as the content is compiled on a good faith basis, we are comfortable that the information being provided substantially enhances our ability to better make decisions based on the total document.

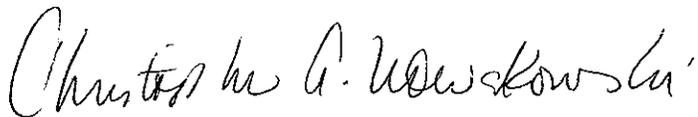
7. The Boards' Preliminary View is all governmental entities should be required to report financial projections and related narrative discussions. Do you agree with this view? Why or why not?

Investors today are as worried about the quality of the information they receive on small borrowers as they are with large ones. Losses or gains from small issuers are just as significant to the bottom line to portfolio management as ones from large issuers.

8. Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate?

Progress in achieving better reporting will not be disturbed from our perspective from a phased-in implementation plan. A phased-in approach based on the size of the governmental entity makes sense and could present cost advantages to the smaller preparers who can more easily imitate presentations made by the early reporters.

Sincerely yours,

Handwritten signature of Christopher A. Nowakowski in cursive.

Christopher A. Nowakowski
Vice President & Senior Research Analyst

Handwritten signature of Richard A. Ciccarone in cursive.

Richard A. Ciccarone
Managing Director & Chief Research Officer