



Advisory Services Institute

GASB Budget Projections for Local Government

Heather Ricard, CPA
Director of Risk Management Services
Municipal Association of South Carolina



Introduction

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What gives GASB the right to issue accounting statements?

- Standard setting body responsible for establishing generally accepted accounting principles for state and local governments
- Statements are not Federal or State mandates



Recent Statements Issued

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- Statement No. 65-Items Previously Reported as Assets and Liabilities
- Statement No. 66-Technical Corrections-2012



Statement No. 65

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- Classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources
- Recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues)



Statement No. 66

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- Clarifies contradictions between Statement No. 10 and Statement 54, allowing for the use of Special Revenue Funds for risk financing activities
- Amends Statement 62-Addressing Operating Leases, Purchase of Loans and Service Fees



Current Projects

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- Pension Exposure Drafts
- Other Postemployment Benefits Project
- Preliminary Views on Financial Projections



Pension Exposure Drafts

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- Exposure Drafts issued in June 2011
 - Accounting and Financial Reporting for Pensions
 - Financial Reporting for Pension Plans
- Final Statements expected June 2012



Pensions

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- Pensions are considered a form of compensation employees earn during each service period
- GASB has determined that the pension obligation meets the definition of a liability
- An employer's net pension liability will need to be recognized on the Statement of Net Position



Pensions

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- Calculation of the net pension liability
 - Total Pension Liability less Plan Net Position Held in Trust for Pension Benefits
- Measured as of the employer's year-end



Pensions

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- Recognize proportionate share of the net pension liability
- Applies to participants in cost-sharing programs such as SCRS/PORS
 - Currently participating employers recognize contractually required contributions
- Effective date for periods beginning after June 15, 2013



Why is this important?

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- Net position may be a negative balance after recording the Net Pension Liability in the Government Wide statements.
- Significant departure from current financial reporting. Currently, payments are recorded as an expense. Disconnects funding from financial reporting.



Why is this important?

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- Bond rating agencies have said this will not change their rating methodology because they were already factoring in pension liabilities in their analysis. However, local banks may not have been factoring this liability into their credit analysis, so it may drive up credit costs.



Pensions

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GASB Chair Attmore Expects Pushback on Pension Accounting Proposals

Accounting Today, June 27, 2011



GASB Files for Divorce

Governing Magazine, July 14, 2011

Timing of Proposed Changes in Pension Reporting Coincidental

MuniNetGuide, August, 2011



Other Post Employment Benefits

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- Revisiting GASB 45
- Added to current agenda, April 2011
- Deliberations to resume, July 2012
- Exposure Drafts, August 2013
 - Fully expect final decisions on pensions to be applicable to OPEB



Financial Projections

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- Economic Condition Reporting: Financial Projections
 - Phase III of long-term project
 - Phase I-background research, including literature review (completed in 2002 and updated in 2006)
 - Phase II-Statistical Section (Statement No. 44, *Economic Condition Reporting: The Statistical Section*)



Financial Projections

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- Project History
 - July 2009-Results of Research on Economic Condition Reporting: *Fiscal Sustainability*
 - December 2009-Added to technical agenda
 - February 2010-Task force established
 - June 2010-Board meeting discussions begin
 - August 2011-Board reached agreement to title the Preliminary Views, *Economic Condition Reporting: Financial Projections*
 - November 2011-Preliminary Views issued



Financial Projections

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GASB Plan Concerns Treasurers

The Bond Buyer, December 7, 2011

Groups Blast GASB's Plan to Seek Five-Year Projections

The Bond Buyer, March 28, 2012

GASB's New Hornet's Nest: 'Economic Condition' Reporting

Governing, December 15, 2011



Definition of Economic Condition

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- GASB Board believes users of financial statements need information to assess a government's *economic condition*
 - Financial Position-the status of assets, deferred outflows, liabilities, deferred inflows, and net position, as of a point in time
 - Fiscal Capacity-the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis
 - Service Capacity-the government's ability and willingness to meet its commitments to provide services on an ongoing basis



Definition of Fiscal Sustainability

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- *Fiscal sustainability* is the forward-looking component of economic condition.
 - It is a government's ability and willingness to generate inflows of resources necessary to honor current service commitments
 - To meet financial obligations as they come due
 - Without transferring financial obligations to future periods that do not result in commensurate benefits



Components of Fiscal Sustainability

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- **Component 1**-Projections of total cash inflows and major individual cash inflows
 - In dollars and as a percentage of total cash inflows
 - With explanations of known causes of fluctuations
- **Component 2**-Projections of total cash outflows and major individual cash outflows
 - In dollars and as a percentage of total cash outflows
 - With explanations of known causes of fluctuations



Components of Fiscal Sustainability

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- **Component 3**-Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, OPEB, and long-term contracts
 - With explanations of known causes of fluctuations
- **Component 4**-Projections of annual debt service payments (P&I)
- **Component 5**-Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those interdependencies



What is considered major?

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- Governmental and business-type activities cash inflows and outflows, and financial obligations that represent at least 10 percent of the total for all activities of that type in any of the projection periods reported
- Cash outlays for capital and capital-related cash inflows from bond proceeds, capital grants or other sources
- Any other cash inflows, outflows or financial obligations the government believes is important to users



Basis and Methodology for Projections

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- Based on current policy-including known changes effective in future periods
- Informed by historical information
- Adjusted for known events and conditions that affect the projection periods
- Inflows and outflows should be projected on a cash basis and financial obligations should be projected on an accrual basis of accounting



Assumptions for Financial Projections

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- Principles-based-requires assumptions to be based on relevant historical information as well as events that have occurred and affect the projection periods
- Assumptions should be:
 - Consistent with each other and with the information used as the basis for the assumption
 - Comprehensive by considering significant trends, events and conditions



Projection Period

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- Periods used by national governments vary from 25 to 75 years
- Recommending a minimum of five individual years beyond the reporting period



Reporting Financial Projections

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- Components of fiscal sustainability are essential to the basic financial statements and notes and should be reported as RSI
- All governmental entities should be required to report financial projections and narrative discussions
- Includes primary government
 - Governmental and business-type activities
 - With net subtotals for General Fund, other governmental activities, total governmental activities, total business activities and a net total for primary government



Cautionary Notice

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- GASB recommends cautionary notice precede the displayed financial projections and narrative discussion
- Readers are cautioned that actual future financial results may differ from the reported results



Next Steps

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- Preliminary views issued November 29, 2011
- Comment period open through March 16, 2012
- Re-deliberation of issues raised regarding the PV's-May-October 2012
- Issue Exposure Draft-January-March 2013
- Issue Final Statement-October 2013



Concerns and Considerations

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- From Girard Miller, Governing Magazine's article "GASB's New Hornet's Nest: 'Economic Condition' Reporting"
 - Governmental auditors likely to be nervous about reviewing this type of data
 - Will future compensation rates be viewed as commitments (even in at-will states?)
 - "Widespread variations" in projections could "undermine the value of this information"
 - Will users actually find this information useful in decision making?



Concerns and Considerations

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- Response from GFOA, ICMA, NACo, NLC and US Conference of Mayors
 - Groups object in "strongest possible terms"
 - "Proposed mandate is unnecessary, confusing and beyond the legitimate scope of the board's jurisdiction"
 - See GFOA public policy statement at www.gfoa.org



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Heather Ricard
Director of Risk Management Services
Municipal Association of South Carolina
PO Box 12109
Columbia, SC 29211
(803) 933-1258
hricard@masc.sc