

Municipal Markets and the FAF/GASB: Uncertain Futures

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Today's Agenda

- Current Issues Facing FAF/GASB
 1. Opposition from Constituent Groups
 2. State Legislative/Regulatory Initiatives
 3. SEC Concerns
 4. FAF Special Governance Report
 5. Convergence toward International Accounting Principles

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Overall Opposition from Constituent Groups

- Service Efforts and Accomplishments (SEA)
 - Opposed by GFOA and Big Seven Public Interest Groups
- Recent GASB pronouncements of minimal value
 - GASB's time has come and gone
 - GASB is in a "make work mode" (e.g. pollution remediation)
- GFOA recommends that GASB become part of FASB (December 2006)
- GFOA retracts this position (February 2008)

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SEA – What’s the Fuss About?

- What is SEA?
 - SEA equals performance measurement
 - The objective of SEA performance reporting is to communicate the extent to which a government’s intended goals were achieved and at what cost
 - Historically, governments have reported on inputs and activities
 - Now, there is increased focus on what is being achieved with the resources consumed in relation to what was planned

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SEA - The Controversy

- Objections from constituent groups
 - GFOA and the seven public interest groups (NGA, NCSL, CSG, NACo, NLC, ICMA, U.S. Conference of Mayors)
 - Performance measurement is part of budget process, not financial reporting
 - GASB has no jurisdiction in SEA
 - Accounting vs. accountability
 - GFOA challenged GASB’s jurisdictional authority in November 2006
 - FAF trustees ruled in GASB’s favor

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History of SEA

- Notion that accounting and financial reporting includes more than just numbers and financial information predates both the FASB and the GASB.
 - SEA concepts are not a product of either the FASB or the GASB

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Timeline of Key Events

- 1936 – National Committee on Municipal Accounting (NCMA), one of GASB's predecessors, issues *Municipal Accounting Statements*
 - Envision government financial reports containing two parts:
 - Financial statements and
 - Statistical tables, which included a table of "statistical facts of general interest to citizens, such as info on selected *service efforts* (number of employees, levels of services provided)"

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Timeline of Key Events

- 1951 – National Committee on Government Accounting, NCMA's successor, publishes *Municipal Accounting and Auditing* (the "Blue Book")
 - Continued to view statistical tables as part of the financial report.

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Timeline of Key Events

- 1972 – Trueblood Committee, established by the AICPA, stated that indicators of earnings power have limited value for assessing government.
 - Rather, an objective of government financial statements should be to provide information for evaluating the effectiveness of the management of resources used to achieve organizational goals.
 - Performance measures should be quantified.

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Timeline of Key Events

- 1980 – FASB publishes *Reporting of Service Efforts and Accomplishments*
 - Concluded that for nonbusiness entities, "service efforts and accomplishments would be an appropriate component of financial reporting."
- 1980 – FASB Concepts Statement No. 4
 - noted that "nonbusiness organizations generally have no single indicator of performance comparable to profit. Thus, other indicators of performance are usually needed."
 - "Service efforts and accomplishments of an organization" are a major part of "the information most useful in assessing its performance."

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Timeline of Key Events

- 1981 – National Council on Governmental Accounting (NCGA), GASB's immediate predecessor, publishes *Objectives of Accounting and Financial Reporting for Governmental Units*.
 - One of the overall goals of accounting and reporting was to provide "information useful for evaluating managerial and organizational performance."

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Timeline of Key Events

- 1993 – The Government Performance and Results Act (GPRA) signed into law.
 - Established strategic planning and performance measurement in the federal government.
 - Since 2000, each federal agency has been required to submit a report on program performance.

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Timeline of Key Events

- 1994 – AICPA Special Committee on Financial Reporting (Jenkins Committee)
 - New model of financial reporting should include information “on the factors that create longer-term value, including **nonfinancial** measures indicating how key business processes are performing.”

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Timeline of Key Events

- 1994 – GASB issues Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*
 - “Having considered users’ needs for assessing accountability...and the role of financial reporting in providing information to assess performance, GASB believes that SEA information is an integral part of GPEFR.”

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Timeline of Key Events

- 2003 – GASB issues “Reporting Performance Information: Suggested Criteria for Effective Communication”
 - Nonauthoritative guidance
 - 16 suggested criteria:
 - Clearly stating major goals and objectives of an organization
 - Focusing on relevant measures
 - Presenting information on citizen perceptions

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Current Status

- Project Prospectus (from GASB staff)
 - Two objectives:
 - Update Concepts Statement No. 2
 - Develop and propose principles-based suggested guidelines for voluntary reporting of SEA performance information

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Concepts Statement No. 2

- Limited scope review of Concepts Statement No. 2
 - Categories of SEA performance measures need to be modified to reflect most relevant and up-to-date research
 - GASB's focus will be on reporting performance measures
- April 2008 - Exposure Draft

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Principles-Based Guidelines

- Project will encompass a broad review of both the *categories* of SEA information that might be reported and *how* SEA performance information might be presented
 - Categories include inputs, outputs, outcomes efficiency and explanatory factors
- July 2008 – Invitation to comment or preliminary views document

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SEA - Current Status

- The scope of the project does **not** include establishing:
 - The goals and objectives of a government's programs or activities
 - Specific non-financial performance measures for governments
 - Target or benchmark levels of performance that should be met by government services

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What's Ahead

- Await the issuance of the GASB due process documents in 2008
- Encourage all government finance professionals to provide feedback to the GASB
- Continue to talk to major constituent groups about concerns

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NASACT's Position

- Opposition from Constituent Groups
 - GASB should remain the independent standard-setting body for state and local governments
- SEA (August 2006)
 - Worthy goal
 - SEA reporting should be supplementary information which is separate from financial reporting (not in CAFR)
 - SEA reporting should communicate facts and measurements that users consider important
 - GASB should not issue mandatory standards regarding SEA measures
 - Anxiously awaiting due process on SEA

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State Legislative/Regulatory Initiatives

- Texas
 - “Option” regarding GASB No. 45 (OPEB)
- Connecticut
 - June 2007
 - Who establishes “generally accepted accounting principles?”
Should this authority be given to the state comptroller?
 - Vetoed by Governor
 - March 2008
 - Similar bill introduced again
 - Comptroller “may” implement GASB standards
- Washington
 - Cash basis financial statements

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NASACT’s Position

- State Legislative/Regulatory Initiatives
 - Encourage compliance with GASB pronouncements
 - State by state GAAP is not a good solution
 - Would increase bond issuance and audit costs

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SEC Concerns

- Recommendations in white paper (July 2007):
 - Make available municipal issuer offering documents and periodic reports that are similar to that required of issuers of corporate securities
 - Information should be free and easily accessible (similar to EDGAR)
 - Mandate GASB GAAP for municipal issuers
 - Provide independent funding for GASB and require or permit SEC oversight of GASB (SOX 108, 109)

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SEC Concerns

- Recommendations in white paper (cont.):
 - Apply same rules to non-governmental conduit borrowers
 - Ensure that issuers establish policies and procedures for appropriate disclosures
 - Clarify the legal responsibilities of issuer officials, underwriters, and bond counsel

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FAF Special Governance Report

- Released December 2007 for public comment
- Recommendations:
 - Nomination and Election of Trustees
 - Expand the breadth of individuals and organizations that nominate trustees
 - Board of trustees has final appointment authority
 - Impact on government trustees
 - Represents a fundamental change to the 1984 structural agreement that created the GASB
 - Eliminates GFOA's and NASACT's "elector" status
 - Could result in more SEC influence in the selection of government trustees and members of the GASB

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FAF Special Governance Report

- Recommendations (cont.)
 - Terms of Trustees
 - Change from two three-year terms to one five-year term
 - Size of Board of Trustees
 - Change from 16 members to a range of 14 to 18 members
 - Governments would continue to fill 3 (minimum)
 - Strengthen FAF Oversight
 - FAF will take a more active role in due process, agenda setting, consideration of public comments, and retrospective evaluation of standards

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FAF Special Governance Report

- Recommendations (cont.)
 - FASB
 - Reduce size of the FASB from seven to five
 - Retain simple voting majority (3-2 vs. 4-1)
 - Realign the FASB composition
 - Auditor, preparer, academic, financial statement user and “best-qualified”
 - Provide the FASB chair with decision-making authority to set the FASB technical agenda

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FAF Special Governance Report

- Recommendations (cont.)
 - GASB
 - Secure a stable mandatory funding source
 - GASB continues to operate at a deficit
 - Approximately \$2 million out of \$6.5 million budget
 - States currently provide \$1 million voluntarily; locals provide approximately \$350,000 voluntarily
 - Bond fee program suspended at June 30, 2007
 - Other support fee programs have been unsuccessful

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FAF Special Governance Report

- Recommendations (cont.)
 - GASB
 - Retain the current size, term length, and composition of GASB
 - Provide the GASB Chair with decision-making authority to set the GASB technical agenda
 - Comment period ended February 10, 2008

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FAF Special Governance Report

- FAF approves all recommendations – February 26, 2008
 - Despite overwhelming opposition from comment letters
- GASB funding – FAF has requested states take the lead
 - Absent state leadership, FAF will pursue Congress
- Appointment of government trustees
 - FAF is to renegotiate the 1984 structural agreement
 - However, this is not mentioned in press release
 - GFOA, NASACT to work with FAF

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NASACT's Position

- SEC Concern
 - Agree with some issues raised (e.g., a free, Internet-based system, stable GASB funding)
 - MSRB's EMMA System
 - Do not support amendment to Tower Amendment or SEC oversight of GASB
- FAF Recommendations
 - Will oppose any changes to the 1984 structure agreement that allows the SEC influence over appointment of three government trustees or members of the GASB
 - Government groups will oppose any mandatory fee that requires federal legislation

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Other Issues – International Convergence

- Growing momentum for acceptance of international accounting principles
 - Promulgated by the International Accounting Standards Board (IASB) – not FASB!!
 - SEC action on November 15, 2007
 - Dropped reconciliation requirement for non-U.S. companies
 - Paves the way to allow U.S.-based companies to use IASB standards
 - Timeline: 5 – 7 years...maybe sooner!
- Impact on GASB
 - FAF governance structure
 - Location

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Questions or Comments?

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