

On behalf of The US Department of Agriculture, Farm Service Agency attached are comments on exposure draft ,“ Reporting Comprehensive Long-Term Fiscal Projections for the US Government”.

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**Comments on exposure draft, *Comprehensive Long-Term Projections for the U.S. Government***

Q1. This exposure draft proposes reporting that would support FASAB Objective 3, Stewardship, and in particular, Sub-Objective 3B:

Objective 3: Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.<sup>1</sup>

Sub-Objective 3B: Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.<sup>2</sup>

More detailed discussion of the reporting objective and the objectives of fiscal sustainability reporting can be found in paragraphs **Error! Reference source not found.** through **Error! Reference source not found.**.

Do you believe that the proposed reporting adequately supports the above objectives? Are there different reporting requirements that might better support the above objectives or that you believe should be added to the proposed requirements in this exposure draft? If so, please explain.

**Yes, in that the proposed reporting would require a basic financial statement with the present values of projected receipts and spending, how the amounts compare to projected GDP, and the changes from the prior year.**

Q2. In this proposed Statement, projections are prepared not to predict the future, but rather to depict results that may occur under various conditions. Accordingly, projections require assumptions to be made about the future. This exposure draft proposes broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections with a primary focus on the future implications of the continuation of current policy without change for federal

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<sup>1</sup> SFFAC 1, par. 134.

<sup>2</sup> SFFAC 1, par. 139.

government public services and taxation. The guidance begins at paragraph **Error! Reference source not found.** Paragraph **Error! Reference source not found.** explains that although current law is a reasonable starting point in selecting policy assumptions, a simple projection of “current law” would not always reflect current policy without change. Examples are provided.

Do you believe that the guidance for assumptions is appropriate? If not, please suggest alternative guidance. Please provide the rationale for your response.

Yes, the guidance for assumptions is appropriate in that it discusses 3 types of assumptions, as noted above, with the starting point being “current policy without change.” Also, in using the same economic and demographic assumptions that are used for the Statement of Social Insurance will provide for comparability of the information for users.

Q3. This exposure draft proposes a basic financial statement<sup>3</sup> and disclosures. (Description begins at paragraph **Error! Reference source not found.** and an illustrative example of the basic financial statement is provided in Appendix B.) The Board has indicated that the primary audiences for the consolidated financial report of the U.S. Government (CFR) are citizens and citizen intermediaries such as journalists and public policy analysts.

Do you believe that the basic financial statement and disclosures would be understandable and meaningful for the primary audiences of the CFR? Please note any changes that you believe should be made to the proposed requirements for the basic financial statement and/or the disclosures.

Yes, the basic financial statement and disclosures would be understandable and meaningful for the primary audiences.

Q4. The Board is proposing that the basic financial statement display the difference between projected revenue and projected spending, and that the fiscal gap (the change in non-interest spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP)) must be reported either on the face of the basic financial statement or in a disclosure. Also, the fiscal gap may be reported for a specific debt level or over a range of debt levels (see paragraph **Error! Reference source not found.**). Both options for reporting fiscal gap are illustrated in Appendix B (see pages **Error! Bookmark not defined.** (narrative on the face of the financial statement) and **Error! Bookmark not defined.** (disclosure)). See paragraphs **Error! Reference source not found.**- **Error! Reference source not found.** in the Basis for Conclusions for an explanation of the pros and cons of the options.

a. Do you agree with the flexible requirements for reporting fiscal gap?

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<sup>3</sup> The basic financial statement will be presented as RSI for a period of three years and subsequently as a basic financial statement.

Yes, in addition, presenting the fiscal gap analysis in figures citizens can relate to and understand is recommended, such as “\$455,000 per American household” would be informative.

- b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?

Yes, and it is recommended that a note disclosure be utilized to explain and illustrate fiscal gap.

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs **Error! Reference source not found.** through **Error! Reference source not found.**. This exposure draft proposes the following requirements regarding time horizons for projections: (a) the projections presented in the basic financial statement should be “sufficient to illustrate long-term sustainability” (for example, traditionally the Social Security program has used a projection period of 75 years for long-term projections); (b) projections for both a finite and an infinite horizon should be provided, one in the basic financial statement and the other in the disclosures; and (c) either the basic financial statement or the disclosures should include projections for Social Security and Medicare based on the time horizon used for long-term projections for Social Security and Medicare in the Statement of Social Insurance (SOSI).

- a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting? Specifically, do you believe that data for both finite and infinite horizon projection periods should be reported? If not, please explain.

It is recommended that the data for a finite horizon projection time period should be reported, such as using the Social Security program’s projection period of 75 years for long-term projections will provide for comparability.

- b. Do you believe that there should be a specific time horizon requirement (for example, 75 years) for the basic financial statement for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you believe should be required?

See above.

Q6. The Board’s mission is to issue reporting requirements for the federal government’s general purpose financial statements, and not to recommend budget policy. This exposure draft proposes a title for the basic financial statement: “Long-Term Fiscal Projections for the U.S. Government.” An alternative title, “Statement of Fiscal Sustainability,” might imply to some that the Board has established or plans to establish specific rules that define “fiscal sustainability” and/or budget rules that would result in fiscal sustainability. However, others have indicated that the “plain English” meaning of the words “fiscal” and “sustainability” should be adequate, and that the title “Statement of Fiscal Sustainability” might be more appropriate.

The Board's working definition of "fiscal sustainability" is explained in the Basis for Conclusions, paragraph **Error! Reference source not found.**. The concept of "Financial Condition" is explained in the Basis for Conclusions, paragraphs **Error! Reference source not found.** and **Error! Reference source not found.**.

Do you believe that the basic financial statement should be titled

- a. "Long-Term Fiscal Projections for the U.S. Government,"
- b. "Statement of Fiscal Sustainability,"
- c. "Statement of Financial Condition," or
- d. A title not listed above (please specify).

Please explain the reasons for your choice.

**It is recommended that**

**a. "Long-Term Fiscal Projections for the U.S. Government," be used. This best describes the objective of this information.**

Q7. This exposure draft proposes a minimum level of disaggregation for the basic financial statement. For projected receipts, major programs such as Medicare and Social Security would be shown separately from the rest of government. For projected spending, major programs such as Medicare, Social Security, and Medicaid would be shown separately from the rest of government. (See paragraphs **Error! Reference source not found.** and **Error! Reference source not found.**-**Error! Reference source not found.**)

a. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statement? Please explain the basis for your views.

b. Do you believe that specific line items (instead of or in addition to the "major programs" required by paragraph **Error! Reference source not found.** of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.

**Yes, the above guidance provides for an appropriate level of disaggregation in the basic financial statement in that the 3 programs Medicare, Social Security, and Medicaid are the major programs. As noted in the Appendix B example, the 3 account for 57.72% of the Total Spending. Further, separate sublines can be added, as required.**

Q8. This exposure draft proposes that disclosures should explain and illustrate the major factors impacting projected receipts and spending (such as the rising cost of health care) (see paragraph **Error! Reference source not found.**). Illustrative examples in Appendix B begin on page **Error! Bookmark not defined.**)

a. Do you believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers? Please

Yes, an explanation and illustration of the major factors impacting projected receipts and spending will be helpful.

- b. Do you believe that the display of a range for major cost drivers and/or major programs, as shown in Illustrations 1a and 1b in Appendix B should be optional or mandatory? Please explain the basis for your view.

It is recommended that the display of a range for major cost drivers and/or major programs be optional, in that ranges can vary.

Q9. This exposure draft proposes that the results of alternative scenarios be provided. Paragraph **Error! Reference source not found.** provides that the present value of projected receipts, spending and the net of receipts and spending be presented for each alternative scenario. Optionally, projections for alternative scenarios may be displayed in a table format (see Illustration 7 in Appendix B).

- a. Do you believe that the proposed requirement for alternative scenarios is appropriate? Please explain the basis for your view.

No, in that including alternative scenarios can cause confusion. Therefore, it is recommended that the inclusion of alternative scenarios be optional.

- b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient? If not, please explain the basis for your view and what additional information you propose.

See above.

Q10. This exposure draft proposes disclosures consisting of narrative and graphic displays to effectively communicate to the reader historical and projected trends and to help the reader understand the major drivers influencing projected receipts and spending. The requirements begin at paragraph **Error! Reference source not found.** and illustrations begin on page **Error! Bookmark not defined.**

- a. Do you believe that the disclosures would help the reader understand the basic financial statement? Yes.

- b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.

Page 55, for the Demographic Trends disclosure, it is recommended that age demographics such as "over 64" be used instead of "retired".

Page 61, it is recommended Alternative Scenarios be optional.

c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?

Yes, in that the illustrative disclosures assist in communicating the information.

Q11. The Frequently Asked Questions (FAQs) at Appendix C provide a “plain English” explanation of terms and concepts used in long-term projections.

a. Do you find the FAQs helpful? Yes.

b. Should the Treasury Department be encouraged to include any of the FAQs in the CFR to promote understandability of the terms and concepts? If so, please specify the FAQs that should be considered for inclusion (and/or exclusion).

Yes, it is recommended that all be included.

Q12. Effective Date and Phased Implementation: This proposed Statement would be effective for periods beginning after September 30, 2009 with earlier implementation encouraged. This proposed Statement would require that the financial statement and the disclosures be included in Required Supplementary Information (RSI) for the first three years of implementation, and basic information (for example, basic financial statement and disclosures) for all subsequent years.

a. Do you believe that this implementation date is reasonable and appropriate? Yes.

b. Do you agree with the phased implementation period (3 years)? Yes.

c. Do you believe that some or all of the required information should remain as RSI after the 3-year implementation period? If so, please explain the basis for your view.

Yes, all of the disclosures should remain as RSI, especially if information such as Alternative Scenarios is included.

Q13. A significant minority of members supported a proposal that there should be RSI regarding trends in the proportion of U.S. Treasury debt held by foreign investors. This information would remain as RSI and would not be subject to the phased-in implementation in paragraph **Error! Reference source not found.** (See paragraphs **Error! Reference source not found.** – **Error! Reference source not found.** in the Basis for Conclusions for a discussion of this proposal and Illustration 10 in Appendix B.)

- a. Do you believe that including RSI regarding the foreign holdings of U.S. Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting? Please explain why or why not.

Yes, in that the proportion has been large and increasing, per Page 64.

- b. Do you believe that the illustrative example provided in Appendix B is clear and understandable? Yes.

Q14. A minority of members supported a proposal that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, RSI (not subject to the phased-in implementation in paragraph **Error! Reference source not found.**) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. (See paragraphs **Error! Reference source not found.**–**Error! Reference source not found.** in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, the statement and disclosures be accompanied by RSI that includes identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.

It is recommended that the RSI not include any proposals for closing a projected fiscal gap. Any recommendations for doing so should be part of another white paper.

Q15. This exposure draft proposes that additional information that may be helpful to readers in assessing whether financial burdens without associated benefits were passed on by current-year taxpayers to future-year taxpayers (sometimes referred to as “inter-period equity” or “inter-generational equity”) be included as one way to meet a disclosure requirement for providing context for the data in paragraph **Error! Reference source not found.** (See paragraphs **Error! Reference source not found.** - **Error! Reference source not found.** in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that such information should be optional (as proposed in the exposure draft) or required? Do you believe that further research and analysis should be performed by FASAB to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of inter-period or inter-generational equity.

It is recommended that inter-generational equity be included such as in RSI. Further analysis can also be performed on how to improve the disclosure of such information.

***Other comments:***