January 18, 2018

David R. Bean, CPA
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@gasb.org


Dear Mr. Bean:

California is home to hundreds of municipal drinking water utilities, which serve more than 80 percent of the state’s almost 40 million people, about 10 percent of the nation overall. Hundreds more wastewater, stormwater, and reclamation agencies provide vital water-related services. It is imperative that these local governmental entities have the capacity and flexibility to access capital markets and invest in water-use efficiency technology, green infrastructure, and other types of decentralized (“distributed”) water infrastructure particularly in the face of climate change and its anticipated impacts.

I commend you for taking a critical step in this regard by clarifying GASB guidance on Regulated Operations through questions 4.4 and 4.5 of the above-referenced draft. This guidance will signal to California utilities that they may avail themselves of GASB Statement 62 to book expenditures on consumer rebates and other distributed water infrastructure as regulated assets. I concur that these are precisely the sort of “business-type activities” that GASB 62 was intended to address.

As State Controller I am responsible for accounting for California’s financial resources. My office also provides guidance to local governments through our Accounting Standards and Procedures Manual, so I understand the importance of clear and concise standards. In partnership with the WaterNow Alliance, I offer the following proposed modification to ensure that final guidance is as clear as possible.

Question 4.4 as currently drafted provides an example of program costs where GASB 62 might apply:
“The plan and subsequent amendments identify certain period costs (for example, postemployment benefits and conservation program costs of providing assets, such as low-flow shower heads, to customers) that are proposed for recovery in future rates.”

While this is correct, I believe it would provide readers with more insight if the examples were more robust and clarified that qualifying costs of both rebate programs and programs that provide technology directly to consumers can be booked as regulatory assets:

“The plan and subsequent amendments identify certain period costs (for example, postemployment benefits and conservation program costs of providing assets, such as efficient washers, turf removal, permeable pavement, greywater systems, low-flow shower heads and other decentralized infrastructure, to customers either directly or in the form of rebates) that are proposed for recovery in future rates.”

Question 4.5 attempts to amplify question 4.4, but instead makes it less clear. The focus seems to be that since utilities are typically regulated as a whole, the rate-setting process, including any regulated operational aspects, cannot be applied to only some programs. Since the first sentence of question 4.4 starts with the assumption that “A utility develops a comprehensive rate plan that includes all expected costs of operations,” question 4.5 is redundant. I also am concerned the hypothetical situation that this question anticipates is confusing and runs the risk of undermining the value of the clarifying guidance provided by question 4.4. Your guidance would be clearer if question 4.5 was simply dropped.

Thanks to GASB for taking up this important issue and helping public entities throughout the nation better understand how GASB 62 can work in real-world situations. If I can be of further assistance, please do not hesitate to contact my office.

Sincerely,

BETTY T. YEE

cc: R. Kinney Poynter, Executive Director, NASACT