Comments GASB Leases Project No. 3-24P due 3.6.2015

Your definition of a Lease includes:

A lease would be defined as a contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.

Rights-of-Entry are contracts with the lease aspect masked through a redirected payment to a non-profit corporation in exchange for use of government-owned land such as a park. City of Los Angeles leases Park space for an event in exchange to annual payments to LA Parks Foundation, non-affiliated in the amount of $150,000 plus per year.

LA River Revitalization Corporation, a legislated (affiliated) non-profit corporation receives Rights-of-Entry on bridges. One will be leased by them (not the City or State) to an outside entity. The State through CALTRANS has some jurisdiction.

We are not clear how this is handled under the guidance.

Sale-Leaseback issues and Reporting Entity issues.

City of Los Angeles forms various entities to execute short-term borrowing without voter approved for a lease-purchase program. One of these entities is a 501(c)(4) non-profit corporation.

We would like to quote from the latest Consolidated Annual Financial Report CAFR FY 6.30.2013:

The Municipal Improvement Corporation Funds account for the activity of the City’s public financing entity component unit which finances the acquisition of real property and equipment, the construction of buildings, and other improvements for the benefit of the public. The assets acquired or constructed by the Corporation are leased to the City under long-term capital lease agreements and become property of the City at the termination of the lease. The effects of the capital lease arrangements have been eliminated from the basic financial statements.

Another entity is a Joint Powers Authority, a separate borrowing authority under California State law. This Authority uses the City of Los Angeles CAFR as its financial documentation. CAFR FY 6.30.2013 reads:

The City entered into a lease-purchase agreement with the Los Angeles Convention and Exhibition Center Authority, a joint powers authority between the
City and the County, for the construction and expansion of the Los Angeles Convention Center. Certificates of participation debt were issued to provide funding for the expansion of the Los Angeles Convention Center, which is owned and operated by the City. The Authority also issued lease revenue bonds to partially finance the City’s share for the development of the Staples Center.

Bond payments are secured primarily by revenues from base rental payments, revenues earned by the facility when available, and revenues collected pursuant to the Gap Funding Agreement relative to the Staples Development. Principal and interest paid for the current year and revenues were $52.3 million and $79.5 million, respectively. The Convention Center certificates of participation and lease revenue bonds outstanding at June 30, 2013, and the original amounts issued are as follows (in thousands):

Only the Net Asset is listed under Capital Assets. There is a Trustee that handles the transactions.

As a public member, we have no way of knowing the true value and future debt is now being anticipated for a convention center expansion to use the increased market value for indebtedness.

When the entities are separate legal entities, with separate boards, that do not have their own financial statement, will this guidance require the government entity to reveal assets and debt. There are State caps on debt, and, so far, the short-term borrowing has exempted the City from requiring a vote by using these mechanisms.

We need transparency in financial reporting, both asset-wise and in indebtedness.

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