September 11, 2019

Mr. David R. Bean, Director of Research and Technical Activities
Project No. 30-1
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft: Public-Private and Public-Public Partnerships and Availability Payment Arrangements

VIA Email: director@gasb.org

Dear Mr. Bean:

Eide Bailly LLP is pleased to respond to the Governmental Accounting Standards Board (GASB) Exposure Draft (ED) document, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (PPPs) and are respectfully providing feedback on the Board’s Views. We are very supportive of the way many of the very difficult issues have been addressed, but question other issues. That said, we have concerns with some points of the ED.

We commend the effort to develop a proposal that is very consistent with GASB Statement No. 87 Leases and the Subscription-Based Information Technology Arrangements (SBITAs) ED. The new lease standard is very complex and will prove difficult for the preparers of financial statements to implement. This ED will allow the same knowledge and processes developed in implementing GASB Statement No. 87 to be applied as the accounting for this potential standard as well as when (and if) the SBITAs statement becomes effective.

We have the following specific comments and suggestions:

We appreciate the provisions of this ED only applying to the statements prepared using the economic resources measurement focus, instead of applying the provisions to the statements currently prepared also using the modified accrual basis of accounting. That said, by not limiting the provisions to the government-wide or the proprietary fund statements, conceivably, the provisions of the ED could apply to fiduciary activities. Many fiduciary funds or component units that are fiduciary in nature report capital asset activities. Therefore, we ask for clarification on the provisions contained in paragraph 3 as to application to fiduciary activities.

In paragraph 5, the phrase ‘public services’ is used. Paragraph B5 in the Basis for Conclusions discusses how the Board concluded that whether the public service related to the primary function of the underlying PPP asset was a distinction that would not result in different accounting and financial reporting and,
therefore, was no longer necessary. The provisions are seemingly from GASB Cod. Sec. S30ftnt. 2, which in paragraph 4 of the ED is slated to be superseded. We suggest including the provisions of the soon to be superseded footnote into a footnote to paragraph 5 of the ED.

We also suggest in that paragraph that delineating infrastructure in addition to non-financial assets may cause some practitioners to exclude other capital assets that could be a PPP. We suggest simplifying the definition to just non-financial assets or capital assets. As by some observers, PPPs will be integral to modernizing the nation’s public capital assets, we believe the Board should emphasize that PPPs should include all forms of capital assets. For example, we know that PPPs are currently in use in a state for high-speed rail. The agreement appears to be not just for the horizontal rail infrastructure, but for the rolling stock.

We were confused by the concept of availability payment arrangements (APAs). We believe that the Board’s provisions on APAs beginning in paragraph 7 and continuing in paragraphs 65 through 67 will be mistaken by most practitioners for normal construction contracts based on milestones, physical condition, performance measures or similar. We do not believe there is a large enough difference between contractual arrangements based on performance measures or milestones and APAs. We also believe that APAs could conflict with the direction the Board may be heading with the revenue and expense recognition project. We suggest eliminating these provisions until that project is finalized.

In paragraph 10, we do not see the practicality of including provisions for short-term PPPs, or even mentioning such measures. We doubt that a government would ever contemplate a month-to-month PPP due to the compensation involved in most PPP arrangements. Similarly, a fiscal funding clause should not be mentioned, which in most cases is a budgetary factor. If the provisions of the ED only apply to the economic resources measurement focus and not to governmental funds, why include discussion of fiscal funding in paragraph 11 of the ED? Finally, the concept of a ‘holdover period’ is undefined in the ED. The word stems from paragraph 12 of GASB Statement No. 87. However, in that standard, the word is undefined. We suggest defining the word in a footnote if the provisions will be in a final standard.

Prior to paragraph 15, we suggest a subheading: Underlying PPP Asset Purchased or Constructed by Operator Meeting the Definition of an SCA to emphasize the accounting and reporting of these activities. We suggest a similar subheading prior to paragraph 16, but instead of meeting the definition of an SCA, the accounting and financial reporting in the paragraph is only for PPPs not meeting the definition of an SCA. The accounting and financial reporting is similar, and we believe that any clarity would be beneficial to practitioners. Finally, we also suggest the Board clarify how net position would change with this activity, other than a restatement of beginning net position upon implementation. A case can be made for the activity adjusting unrestricted net position, or if resulting in a capital asset, net investment in capital assets. The impacted component of net position is entirely unclear as proposed.

In paragraphs 15 and 16, if the PPP meets the definition of an SCA (paragraph 15,) the underlying asset will be valued at acquisition value. However, if the PPP does not meet the definition of an SCA (paragraph 16), the underlying asset will be valued at carrying value. In many instances meeting the provisions of paragraph 16 (not an SCA,) the underlying asset at the end of the PPP may have a carrying value of $0. We suggest explaining in the Basis for Conclusions why paragraph 15 is at acquisition value and paragraph 16 is at carrying value.
In paragraph 17, we believe the initial direct costs incurred by the transferor should be expensed in all circumstances. We suggest adding the phrase ‘in all circumstances’ to emphasize this point. However, this is counter to paragraph 43(d) where from the operator’s standpoint, the costs are capitalized. We suggest symmetry between the two paragraphs.

The proposed note disclosures in paragraph 29 for transferors and governmental operators (transferees) in paragraph 47 mirror those for lessors and lessees contained in GASB-87. We ask the Board for relief to allow presentation of such notes within the applicable disclosure related to lessors or lessees and related capital assets to eliminate redundancy.

As referred to previously regarding APAs, specifically in paragraph 65 of the ED, for APAs, we are wondering the prevalence of multiple components in such agreements. We are not sure of the practicality of separating the components given the inconsistency of payments.

In paragraphs 68 through 70, we agree with the transition provisions. However, we also believe that for very complex governments that may have leases as well as SBITAs and now PPP, there will be a straining of resources to implement all three standards within the same timeframe. We ask that there be a year delay for the specific provisions of this ED so that complex governments can focus on the leases as well as SBITAs, stabilize the policy and procedure changes necessary and then leverage those changes for PPP due to the similarity of accounting, financial reporting and related note disclosure.

Finally, in Appendix C, we suggest adding an illustration including combinations. The proposed illustrations are modifications of GASB Cod. Sec. S30.902, except for illustration 4. The inclusion of illustration 4 is welcome to explain APAs. However, we press the Board on the practicality of APAs considering the current project on revenue and expense recognition.

We thank you again for your consideration. You may reach me at 208.383.4753 for further clarification of our response. You may also reach Sara Kurtz at 970.999.8928 or Eric Berman at 208.424.3524 who assisted in preparing this letter.

Sincerely,

Scot Phillips, CPA
Partner in Charge of the National Assurance Office
Eide Bailly LLP

Cc: Jodi Daugherty, CPA, Director of Government Services
    Sara Kurtz, CPA Partner
    Eric Berman, CPA, CGMA Partner