September 13, 2019

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

Dear Mr. Bean,

On behalf of the Government Finance Officers Association of the United States and Canada (GFOA), we thank the Governmental Accounting Standards Board (GASB) for the opportunity to comment on the proposed Exposure Draft (ED), Public-Private and Public-Public Partnerships and Availability Payment Arrangements (PPPs). This response was prepared by GFOA’s standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR).

GFOA supports the proposal to continue utilizing much of the existing guidance on service concession arrangements (SCAs), and the use of lease accounting both for certain PPPs (those that are not SCAs and meet the criteria to be leases) and as a foundation for accounting guidance for other PPPs. We also support the proposal to remove the GASB Statement No. 60 requirement that transferor governments recognize, at the inception of an SCA, liabilities related to commitments they have made under the SCA. GFOA offers the following suggestions for additional clarification:

1. We suggest that GASB move some of the explanatory language clarifying the definitions of APAs from the basis for conclusion to the standard section of the proposed statement, as we believe that language would greatly aid readers in understanding the definitions as currently included. For APAs we recommend that the following language from paragraph B6 be included: “APAs are similar to PPPs except that the government retains demand risk and responsibility for fee collection associated with the use of the underlying asset. That is, instead of the other entity (the operator) being conveyed the right and obligation by the government to provide public services through the use of the underlying asset and being compensated from third parties, the government is compensating the other entity for either providing an asset to the government or performing services on behalf of the government.”

2. We would also like to propose that rather than asking transferors and operators to estimate future values of underlying assets that will not be immediately transferred from an operator to a transferor (in a non-SCA PPP), GASB consider promulgating the same guidance in those cases as is proposed in the case of SCAs, namely that the receivable recognized by the transferor and the payable recognized by the operator be the acquisition value at the time the underlying asset is placed in service, and that the
receivable be subject to periodic adjustments that would be the substantive equivalent of depreciation and, if necessary, impairment; essentially mirroring the accounting and financial reporting for the underlying capital asset or a future “right-to-use” asset. We understand that it may be conceptually preferable to base these measurements on estimates of value (acquisition value is preferred with book value as a practical alternative) at the future time that ownership and control will be transferred. However, the substance of the arrangement is one in which an underlying asset is being constructed for the purposes specified in the PPP and ultimate ownership by the transferor government.

3. If the Board decides to not modify the ED and use the estimated future carrying value in paragraphs 16 and 33, we suggest that more guidance be provided for how the underlying asset should be valued when it is put into service or received by the transferor government. The value of the underlying asset can change from the time the estimate is made and when it is put into service (i.e. change orders). The ED only requires a remeasurement of the underlying PPP asset if there is a change in the PPP term.

4. Finally, we suggest that GASB clarify paragraph 15 – specifically: subparagraphs a. and b. are alternatives that an operator would select from when recognizing either a new asset (a.) or an improvement upon an existing asset (b.); subparagraphs c. & d. are required regardless of which type of asset is recognized.

Thank you, again, for the opportunity to comment on this proposal and we would be happy to respond to any of your questions. Please feel free to contact GFOA’s Director of Technical Services, Michele Mark Levine, by telephone at 312.977.9700 ext. 6101 or email at mlevine@gfoa.org.

Sincerely yours,

Melanie S. Keeton, Chair, CPA
Committee on Accounting, Auditing, and Financial Reporting

Diane B. Allison, CPA, CGFO, Vice-Chair
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