September 17, 2019

Director of Research and Technical Activities, Project No. 30
director@gasb.org

Re: Exposure Draft of Public-Private and Public-Public Partnerships and Availability Payment Arrangements (Project No. 30-1)

Dear Sir:

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Exposure Draft of Public-Private and Public-Public Partnerships and Availability Payment Arrangements (Project No. 30-1) dated June 6, 2019. We offer the following comments in relation to this document:

1. Throughout the exposure draft, there were definitions of PPP and SCA conditions (that were leases or not leases) that trigger the applicability of the pronouncement. For the sake of clarity, we feel it may aid readers to provide a flowchart showing the various conditions that trigger the applicability of the final pronouncement.

2. In paragraph 16 and 28, we have concerns regarding recognition of revenue for the underlying PPP asset purchased or constructed to be received from the operator. We believe that in these circumstances, revenues should be recognized at the end of the term rather than throughout the term of the lease. The contingent and uncertain nature of predicting the future usefulness of an asset (given unknown conditions, obsolescence, etc.) make it likely that revenues (and net position) could be overstated in many cases.

   For example, Joe Louis Arena, the former NHL hockey arena for the Detroit Red Wings, was recently turned over to the City of Detroit. The proposed wording in paragraph 16 & 28 would have caused the City to recognize revenue over that 30 year period for the estimated value of the arena when it was to be turned back over to the City. During the course of the Red Wings playing there, it was assumed to be a useful asset once the team was finished playing there. There was no reason to undertake any market analysis of the building’s best use. Once the team announced its plans to abandon the building after the end of the PPP term, the City then undertook a serious analysis. Ultimately the arena was demolished. There was no revenue associated with this turn over, but rather, there was expense associated with the cost of demolishing of the arena. We feel it would have been unreasonable to expect the city to assess the value (including potential impairment) of the arena while the team was still using it. As it turns out, with hindsight being 20/20, the City should have been recording a net liability related to the arena, rather than an asset.

We believe the potential future usefulness of a PPP asset represents a contingent asset, in most cases. As such, we would support disclosing the asset in the footnotes rather than recognizing an asset in the statement of net position. Alternatively, if the Board believes an asset and deferred inflow of resources are appropriate, we would support amending paragraph 28 such that the deferred inflow would not be recognized as inflows of resources until the point in time...
when it actually benefits the government (at which time it would be valued at an appropriate value relative to the method in which the asset will be utilized, consistent with the GASB 42 principles).

3. Finally, in paragraph 65 and illustration 4, we would appreciate a more concise definition of "Availability Payment Arrangement".

These comments represent the consensus opinion of the Accounting Standards Committee and have been approved by our Board of Directors. Thank you for your consideration and the opportunity to express our points of view.

Very truly yours,

[Signature]
David A Keenan, President
Michigan Government Finance Officers Association