

Director of Research and Technical Activities – Project No. 30
Governmental Accounting Standards Board
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SUBJECT: RESPONSE TO EXPOSURE DRAFT – ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS

The County of Fairfax, Virginia (the County) would like to take this opportunity to respond to your Exposure Draft (ED), “Accounting and Financial Reporting for Service Concession Arrangements.” The County appreciates the efforts of the Governmental Accounting Standards Board (GASB) in the development of improved financial reporting standards and this due process opportunity to provide our thoughts on this ED. There are certain aspects of the ED which either cause us some concern, or for which we seek further clarification in the final statement. The following comments reflect the County’s thoughts:

1. The County is concerned with the unintended impact of this ED on a number of public-to-public arrangements nationally. Specifically, the unique arrangements between primary governments and their component units: schools, housing authorities, parks, utility authorities, etc. In many of these arrangements the primary government provides or acquires land and buildings for their component units to operate. Often the primary government will issue debt for the acquisition or development of the facility. We are concerned that the provisions of this ED will lead to widespread changes in how assets between these organizations will be capitalized, with unintended negative consequences (e.g., negative unrestricted net assets as a result of debt not being matched against the assets it was issued for). In our case, one of our assets valued at over \$100 million would switch entities and no longer match with the debt that was issued for it. We believe that public-to-public arrangements should be excluded from this ED.
2. Page 1, Paragraph 4 describes a Service Concession Arrangement (SCA) as one in which, “the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”).” We request that the ED expand on what you mean both by the “right” and “obligation” to ensure consistent application of the standard.

3. Page 2, Paragraph 6 of the ED recommends amending NCGA No. 5, paragraph 11, to exclude Service Concession Arrangements and Page 2, Paragraph 7 of the ED requires reporting capital assets on the books of the entity that controls the management of the facility, using a new standard for determining control. Previous authoritative guidance for capitalization of assets (NCGA Nos. 1 and 5) focused on ownership, consuming use (financial or useful life), or responsibility for maintenance of the facility as the determining factors for which entity should report the asset. We do not see a reason why SCA's would be different or why current standards for where to report an asset are not sufficient. Also, in previous standards (GASB No. 14) control was used to determine whether the facility was part of the entity's primary government or a component unit, not whether to capitalize its assets. We believe that this ED's mixing of these two concepts will have the unintended consequence of capitalizing assets in the wrong financial reporting entity. If the intent of the ED is to establish who controls the facility, rather than where the assets should be reported, then we believe this intent would be sufficiently addressed through additional note disclosure, rather than creating new capitalization and lease precedence exclusively for this situation.
4. Page 3, Paragraph 11 states, "For SCAs in which any criterion in paragraph 7 is not met, the transferor should not report the facility as a capital asset. If the facility was recognized by the transferor prior to the SCA, then the transferor should derecognize the facility..." We feel this needs more clarification as to the implications of this recommended change, specifically as it relates to collateral and debt identified with the transfer. If you derecognize the assets owned and paid for by the transferor, you may impair their ability to issue future debt as they no longer have audited financial statement support for their assets, even though they hold title. In addition, the ED does not adequately address the reporting of debt issued by the transferor for this facility or the affect of derecognizing the facility on the classifications in the net asset section of the statement of net assets (e.g., what are the implications for interperiod comparative reporting of moving capital debt from invested in capital to unrestricted net assets when the facility is derecognized? How do the financial statements support the reason this debt was issued if the asset is not reported?
5. Page 4, Paragraph 13 recommends that the "operator should report an intangible asset for the right to access the facility" to be "amortized over the term of the arrangement in a systematic and rational manner." We believe that this second asset should not be reported for the following reasons:
 - a. The potential double counting of the assets on a consolidated basis for total entity reporting;
 - b. Lack of guidance as to the recommended reporting of the asset in the financial statements (it's not capital, but where should it be reported?)
 - c. Reporting access to the facility as an asset is inconsistent with operating lease accounting.

We would also like to take this opportunity to point out that this response addresses our initial concerns regarding the ED, and that as we gain further clarification and understanding of the intention of the ED we will most likely have additional concerns as a result.

On behalf of the County of Fairfax, we thank you in advance for considering our suggestions and responding to our questions as we look forward to working with the GASB in the future toward improving the standards for our industry. We would also like to thank Mr. Kenneth Schermann, Ms. Roberta Reese, Ms. Sarah Geisman and Ms. Lisa Avis of your staff, who graciously contributed their time in assisting us to better understand the intent of the ED and enhance our ability to respond in an appropriate fashion.

Sincerely,

Victor Garcia
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