



Mr. David R. Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

September 13, 2019

*Via email to [drbean@gasb.org](mailto:drbean@gasb.org)*

RE: Invitation to Comment: Exposure Draft relating to the Governmental Accounting Standard Board Proposed Statement on Public-Private and Public-Public Partnerships and Availability Payment Arrangements, Project No. 30-1

Dear David:

The National Federation of Municipal Analysts (NFMA) is pleased to respond to the request for comments on the Exposure Draft relating to the Governmental Accounting Standards Board (GASB) Proposed Statement on Private-Public and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (Proposed Statement).

The NFMA is a not-for-profit association with nearly 1,300 members in the United States, comprising a broad range of municipal bond analysts from the buy-side, sell-side, rating agencies and bond insurers. The mission of the NFMA is to enhance the professional development and analytical contributions of municipal market participants through best-in-class educational programs, networking opportunities and targeted advocacy that supports improved disclosure to benefit the industry. The NFMA has published an extensive library of Best Practices in Disclosure and White Papers which are available on our website, [www.nfma.org](http://www.nfma.org).

The NFMA supports the GASB's efforts to improve the transparency and quality of financial information available to help users of financial statements more accurately evaluate the credit attributes, trends and fiscal health of governmental entities. The comments that follow are made in recognition of the clear alignment of interests that exists between the GASB's mission of good financial disclosure to users, and our professional needs as analysts of municipal credit risk.

The Proposed Statement seeks to advance better insight and understanding of government financial statements by setting forth proposed standards that would define public-private and public-public partnerships and availability payment arrangements (APAs) for the purposes of recognition and disclosure in financial statements and to establish accounting and financial reporting requirements



related to these arrangements entered into by governments. The NFMA is generally supportive of the Proposed Statement, subject to the comments and recommendations contained herein.

The NFMA has the following general and specific comments on the Proposed Statement, in no specific order of priority.

1. **Consider focusing on transaction features instead of creating a transaction type classification system.** The Proposed Statement attempts to create a classification system for specific types of PPP transactions, and uses this as the foundation for the application of accounting rules. However, given the bespoke nature of PPP transactions, such a structured approach is reasonably less than ideal. Many PPP transactions contemplated today, and likely those in the future, involve multiple sources of revenues, including service concessions and availability payments, or a governmental subsidy or backstop.

Because PPPs can cover a spectrum of revenue sources and arrangements, we recommend that the GASB move away from classifying these transactions for accounting purposes and instead develop accounting rules that address the features of these arrangements. The defining features of PPPs for governments can generally be divided into the following activities: 1) the making of contractual payments; 2) the receipt of contractual payments; 3) the receipt of new physical assets; 4) the payment of operating and maintenance (O&M) expenses; 5) the payment of major maintenance expenses; and 6) cancellation/termination provisions. By focusing on addressing the accounting for each of these activities, the accounting rules will be able to more readily accommodate hybrid and new PPP transaction structures in this relatively new and evolving asset class.

2. **Employ standard industry nomenclature.** The GASB Proposed Statement uses some nomenclature that differs from the established terminology used by investors and other practitioners involved in PPP financings. The terms introduced by GASB are likely to create some confusion in interpreting the GASB accounting proposals. PPPs often involve private investors or non-US participants who are unfamiliar with US public finance accounting but want to understand how partnering governments will treat a PPP. For these reasons, we recommend that GASB use, when feasible, established PPP-industry terminology and provide a prominently displayed glossary of terms in the accounting rules to ensure that non-standard terminology is defined and clearly understood.

The grid below (page 3 of this letter) summarizes the differences in terminology and our proposed recommendations:



Exposure Draft Terminology	More Common Terms and Related Issues
PPP	<p>The term PPP has historically referred to Public-Private Partnerships and is well established in the industry. It would be helpful to use a separate term for Public-Public Partnerships.</p> <p>It seems confusing to define PPPs to exclude APAs. It may be clearer to have a separate term for Revenue-Risk (or Demand-Risk or Volume-Risk) PPPs, and a separate term for Availability Payment PPPs, and a recognition that some PPPs will include elements of both.</p>
SCA	<p>We understand this term, which refers to a Service Concession Arrangement, is already published, but more commonly used and accepted terms are Revenue Concession, Volume-Risk PPP, or even Design-Build-Finance-Operate-Maintain (DBFOM)-Revenue Concession.</p> <p>The term Concession usually refers to a toll road/SCA-style PPP, but it doesn't have to, and it might be useful to use the term more broadly here for any PPP (or just instead of SCA).</p>
Transferor	<p>The term Transferor is not commonly used in the industry. The entity is typically called a Grantor (of the PPP concession). It also could be considered the project's Offtaker.</p>
Operator	<p>The term Operator typically refers to the private company hired to operate the asset, which may or may not be a PPP partner.</p> <p>The name for the grantor's partner could be called a concessionaire, or in project finance could be a Project Co, special purpose entity (SPE), or debt issuer.</p>
APA	<p>This term is commonly used by market participants, but distinguishing APAs as not being PPPs is likely to cause some confusion among users of financial statements. Additionally, the term is typically used in conjunction with other transaction defining terms such as an Availability Payment (AP)-based PPP, or even a DBFOM-AP, to distinguish them from a DBFOM-Revenue Concession or a Volume-Risk Concession.</p>



3. **Explicitly state which existing accounting treatments/rules also would apply to PPPs.**  
It was not entirely clear when reviewing the Proposed Statement that existing accounting statements/rules (e.g., for leases or grants) were intended to be used for certain transaction elements in PPPs. We recommend that when other rules are incorporated into the accounting statement for PPPs that it be done explicitly, and that clarifying examples be provided.
  
4. **Clarify treatment of PPP debt.** We agree with the proposal that for availability payment-based PPPs, in which the asset transfers to the government at the end of the contract term, the debt should be treated as a financed purchase on the balance sheet of the government. However, in a Public-Public Partnership the Proposed Statement is unclear as to which entity would report the debt.

Improvements and enhanced transparency in governmental accounting and reporting for PPPs are very important to the NFMA membership, particularly given the current lack of consistency in financial disclosure and reporting, and the potential for new types of and increased PPP transactions in the future. The NFMA looks forward to working with the GASB with shared goals of more clearly defining the accounting rules for PPPs in financial statements and enhancing the consistency of financial reporting.

We thank you for the opportunity to provide our comments on the Proposed Statement on Public-Private and Public-Public Partnerships and Availability Payment Arrangements. We would be happy to discuss our feedback and recommendations in follow-up communications.

Sincerely,

/s/

Lisa Washburn  
NFMA Representative to GASAC

