October 23, 2019

Technical Director
File Reference No. 2019-780
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
Via Email: director@fasb.org

Dear Technical Director:

The University of Chicago Medical Center appreciates this opportunity to comment on the Financial Accounting Standards Board’s (FASB’s) exposure draft of the revised proposed Accounting Standards Update, Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent).

The University of Chicago Medical Center (referred to as “UCMC” hereafter) is the parent organization of an integrated nonprofit healthcare system that includes both an Academic Medical Center and a community hospital division. The annual revenues of UCMC total $2.4 billion as we are one of the largest healthcare providers in Chicago and the largest provider in the State of Illinois for Medicaid patients in serving Chicago and its South Side community.

General Comments

In the exposure draft, the FASB states it is issuing this proposed update as part of its initiative to reduce complexity in accounting standards (Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to financial statement users.

Specific Issue

An example of a change in the classification would be short-term debt that has a contractually linked long-term financing arrangement. Under current GAAP, short-term debt is classified as a noncurrent liability if an entity enters into a financing arrangement and meets certain conditions, including the fact that the debt is not expected to be paid within the next period of reporting. The amendments in this proposed Update would preclude an entity from considering contractually linked long-term financing arrangements (such as letters or lines of credit) in determining the classification of the debt.
THE UNIVERSITY OF CHICAGO MEDICAL CENTER’S RESPONSE

Variable Rate Debt Obligations (VRDOs) were developed as a viable alternative for long-term financing arrangements. The option to finance via VRDO backed by a Letter of Credit (LOC) or standby bond purchase agreement (SBPA) has been seen as interchangeable with other long-term financing options such as direct purchase, floating rate notes, or fixed rate bonds. It is clearly intended to be a long-term debt vehicle in practice.

As proposed, the accounting standards update would require short-term classification for VRDOs which would have a significant impact on financial metrics and debt covenants of healthcare organizations. This change would unduly impact and skew metrics of healthcare organizations, including UCMC, who happens to be using VRDOs backed by a LOC as their long-term financing vehicle, causing incongruent comparisons of debt metrics among healthcare organizations. Consequently, such debt would only be considered noncurrent after a failed remarketing, which seems counter intuitive.

UCMC believes the following items provide additional context that would compel the FASB to consider not implementing the Exposure Draft. While every institution may have different circumstances, we believe the impacts to UCMC are significant for consideration.

1. UCMC’s VRDO obligations total almost $400 million and represent 42% of our debt portfolio.
   • The liquidity facility is entered into simultaneously with the issuance of the VRDOs, and is an integral part of the financing arrangement described in the prospectus issued to our potential investors
   • We have multiple letters of credit, which provide liquidity to support our variable rate bonds with expiration dates ranging from November 2020 to June 2022. Letters of credit are generally renewed 120-30 days prior to the given expiration date.
   • The liquidity facility allows certain types of investors (for example, money market funds) to be able to invest in our bonds (because they can exit within their required liquidity timeframe if necessary)
   • The liquidity facility cannot be utilized for any other purpose. If the bonds are refinanced, the liquidity facility terminates.
   • Draws on the liquidity facility can only be initiated by the bond trustee upon notification of a failed remarketing. We do not have the ability to initiate draws on the facility.
   • The facility must be renewed prior to expiration. Failure to renew or replace a facility requires the bonds to be restructured. They cannot be outstanding without a liquidity facility in place.

2. UCMC’s potential impacts to issued financial statements should the proposal be approved and placed into effect:
   • Included in UCMC’s debt is approximately $400 million of variable rate demand bonds that are collateralized by letters of credit.
Scheduled principal repayments on long-term debt based on the variable rate demand notes being put back to the System and a corresponding draw being made on the underlying credit facility would impact maturity schedules and classification of the debt from a predictable $20 million debt service payments annually to over $150 million.

This dramatic change and classification changes on the balance sheet will be difficult for regulators and other key stakeholders to properly assess implications of actual debt service and cash flow with the demands based on balance sheet classification.

3. We believe the proposal to be detrimental to UCMC for the following reasons:

- This is an integrated financing transaction. To report the bonds based solely on the demand repayment terms of the bonds provides users with a distorted picture of the financing arrangement, because the true repayment mechanism is relegated to disclosure.
- Displaying our VRDOs as two separate financing agreements (one of which is recognized, the other of which is only disclosed) is misleading, because the financial statements will not reflect the economics of the financing arrangement. This would be a “form over substance” presentation.
- It would be misleading to users of our financial statements to display this debt as if we would actually have to repay the entire amount of the bonds within the next year when in fact the bonds are due over many years.
- Users of our financial statements focus on our ability to generate cash flows that are sufficient to cover our operations plus our debt service during the period. It is misleading to report as if the entire long-term bond obligation will require use of our current resources, when in fact the only current resources that will be used are those associated with making the current installment of principal and interest.
- Our financial statements are widely distributed because of the significance of our footprint, our branding and position in the community. In addition we have significant reporting requirements with various regulators and agencies where our statements are reviewed and scrutinized. We will have to provide significant additional disclosures and MD&A to address why the information reported on the financial statements is not reflective of the economic substance of our debt structure. The change would not simplify the guidance, it would make it harder for us to tell our story.
- We will be required to explain to analysts and investors that there isn’t a substantive liquidity difference between us and our GASB competitor that has VRDOs. We would be required to show all our VRDOs as current obligations, while our GASB competitor is able to report current and long-term portions that reflect economic reality.
- In the worst-case scenario that our bonds had to be called, the resulting repayment schedule would be long-term debt with a current portion. In the normal payment scenario, it is misleading to report as if these will require use of current resources.

THE UNIVERSITY OF CHICAGO MEDICAL CENTER

4. **UCMC's proposal to FASB**

We respectfully request review and reconsideration of this provision as it will not result in a more simplified approach to debt classification and subsequently lead to additional administrative burden and expense for healthcare organizations. **We do not** support a provision to the proposed update allowing VRDOs that are contractually linked to a long-term LOC or SBPA to be classified as current. We feel this would result in a misleading picture of our current liabilities and could cause confusion for creditors and those making financial decisions based on our financials. We also feel the current additional disclosure we include regarding an accelerated debt schedule in the unlikely event of failed remarketing of our variable debt is sufficient for the reader to understand, while not being misleading.

Thank you for the opportunity to comment. We are always ready to provide additional comments, or meet with you or members of your board to discuss this matter further. If we can provide additional material or perspective on this issue, please contact Justin P. Kats at Justin.Kats@uchospitals.edu or (773) 834-2065.

Sincerely,

Richard W. Silveria  
*Executive Vice President and Chief Financial Officer*  
THE UNIVERSITY OF CHICAGO MEDICAL CENTER