October 24, 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:

West Virginia University Health System (WVUHS) 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).

WVUHS is a $3.5 billion health care system that includes 11 member hospitals, over 1,300 employed or controlled physicians, 15,000+ FTEs, and other supporting components. WVUHS currently holds in excess of $1.3 billion of issued debt that is diversified for business reasons and includes traditional tax exempt fixed rate bonds, debt privately placed with various financial institutions (fixed and variable), SWAP agreements, and Variable Rate Demand Bonds backed by long term letter of credits.

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. I personally don’t think the Board has met its objective with respect to Topic 470.

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 long-term financing arrangement (commitments extend in excess of one year from financial reporting date) and meet other certain conditions, including the fact that current market conditions do not appear at risk (i.e., debt can be remarketed) and the debt is not expected to be paid within the next period of reporting (i.e., the reporting entity is not expected to be required to repay principle of debt due to letter of credit protection). The amendments in this proposed Update would preclude a reporting entity from considering contractually linked long-term financing arrangements, such as letters or lines of credit, in determining the classification of the debt even though the likelihood of near term (within 12 months) repayment risk is extremely low.
WVUHS Observations and Impact Analysis:

Variable Rate Debt Obligations (VRDOs) were developed as a viable alternative for long-term financing arrangements. Our option to finance via VRDO backed by a Letter of Credit (LOC) has been considered interchangeable with other long-term financing options such as direct bank loans, floating rate notes, or fixed rate bonds. Our VRDOs are clearly intended to be a long-term debt vehicle in practice and has been an effective vehicle in diversifying our debt portfolio and our debt risk.

As proposed, the accounting standards update would require short-term classification for VRDOs which would have a significant impact on our financial metrics and, although not specific to WVUHS, could impact debt covenants of many healthcare organizations. This change would unduly impact financial metrics of healthcare organizations, including WVUHS who happen to be using VRDOs backed by a LOC as their long-term financing vehicle, causing inaccurate comparisons of debt metrics among healthcare organizations and others that use a classified balance sheet format. And to consider VRDOs as noncurrent only after a failed remarketing, is not only counter intuitive from a reporting perspective, it understates the actual financial risk of a healthcare organization.

Below are “real life” items for the Board to consider:

- WVUHS is an “A” rated health care system and currently holds approximately $100M of VRDOs (3 separate issues). Each of our VRDO issues are backed by a letter of credit from a financial institution rated above the “A” category. Our letters of credit are typically five year bank commitments and include repayment terms of at least five years if there is a failed remarketing event involving the respective VRDO issue. If WVUHS were required to report this debt as a current liability our current ratio would go from a historically stable 2.5 ratio to an less than competitive 2.0 ratio. In my opinion, more than somewhat misleading to a reader of our financial statements.

- Due to our “A” rated credit rating, our debt covenants do not include the “current ratio” indicator but many health systems below “A” category are not as fortunate. This change could very likely impact their compliance with existing covenants causing other unintended reporting consequences. In addition to the above, 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 a given period. It is boldly misleading to report as if the entire long-term bond obligation will require use of our current resources, when in fact the likely only current resources that will be used are those associated with making the current installment of principal and interest. This proposed change via Topic 470 is just not logical.

- If this proposed classification change is included in final GAAP accounting guidance, WVUHS would be required to consider refinancing its VRDO bonds to another debt vehicle. Thus incurring additional costs that would otherwise not be incurred. I don’t think it was the intent of the Board to contribute to rising cost of healthcare that has no impact on patient care. Unfortunately, I believe this would be the case for many providers under the proposed change to current classification for VRDO arrangements in place.

- If this proposed classification change is included in final GAAP accounting guidance, the Board would be impacting current business opportunities of financial institutions across the country. No one would continue to use letters of credit unless absolutely necessary. I don’t think it was the intent of the Board to negatively impact business opportunities and jobs related to financial institutions.
If this proposed classification change is included in final GAAP accounting guidance, the Board would be impacting current business opportunities of bond underwriters and remarketing agents across the country. No one would continue to use VRDOs unless absolutely necessary and other options were not available. I don’t think it was the intent of the Board to negatively impact business opportunities and jobs related to the underwriting industry.

We respectfully request review and reconsideration of this provision as it will not result in a more simplified approach to debt classification, but will subsequently lead to additional administrative burden, confusion, and expense for healthcare organizations. We support a provision to the proposed update allowing VRDOs that are contractually linked to a long-term LOC or SBPA to still be classified as noncurrent. The concept of the contractual linkage would appear to be a practical solution that would more appropriately reflect the intent and economics of the entire financing transaction. At a minimum, we respectfully request that consideration be given to grandfathering VRDO arrangements already in place prior to the effective date of the new standard.

Thank you for the opportunity to comment. I would always be ready to provide additional comments, or meet with you or members of your board to discuss this matter further. If I can provide additional material or perspective on this issue, please contact Doug Coffman at douglas.coffman@wvumedicine.org or 304-285-7180.

Sincerely,

Douglas M. Coffman
West Virginia University Health System
Sr VP of Finance/CFO