October 25, 2019

Dear Technical Director:

Banner Health 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)*.

Banner Health is a not-for-profit integrated healthcare delivery network based in Phoenix, Arizona with 27 acute care hospitals in six states, over 50,000 employees and over 8,000 medical staff providers. Banner's operation includes over $12 billion in assets and $9 billion in revenue.

**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.
Banner Health 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 Banner Health, who happen to be using VRDOs backed by a LOC or SBPA 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.

Banner Health has used VRDOs backed by LOCs as a very specific strategy to develop a well-balanced, cost effective financing platform. At this time, approximately $483M (or 14%) of our $3.5B debt portfolio is comprised of VRDOs which were structured with simultaneous issuances of standby, direct pay LOC arrangements.

These LOC agreements are executed co-terminus with third party banks whereby the banks are contractually obligated to purchase any bonds which fail a remarketing effort where bonds have been tendered, causing the bonds to remain, as intended, as long-term debt. These LOCs are in place for the exclusive use by the bond trustee upon notification of a failed remarketing event.

The use of this financing approach allows Banner Health to reduce its overall weighted cost of capital, and is commonly used by many health systems. Healthcare organizations and not-for-profit entities, in particular, are under ever increasing pressure to manage their cost structures. Structuring an effective, cost efficient debt portfolio is instrumental in keeping Banner Health’s fixed cost structure as low as possible.

The proposal would be detrimental to Banner Health (and likely many other issuers) for the following reasons:

- 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.
Financial metrics such as current ratio will be inappropriately distorted and could create material master trust indenture violations, resulting in increased costs and/or potentially restructuring of debt obligations.

It would be misleading to users of our financial statements to display this debt as if we would have to repay the entire amount of the bonds within the next year. Management’s intent is clearly to maintain a cost efficient, balanced debt portfolio with repayment of such obligations over longer periods which match the intended return on debt-funded projects.

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 planned installment of principal and interest.

Our financial statements are widely distributed. 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 likely make it more complex by adding incremental disclosures to ensure the financing transactions are properly understood by our readers.

This will create an inconsistency with reporting entities that follow the current Government Accounting Standards Board (GASB) requirements, which will make comparing similar entities unnecessarily complicated.

If the amendment is finalized as described, Banner Health will need to review the implications of such change on our financial statements and determine whether we will have any covenant violations as a result of the change and may be forced to consider refinancing certain tranches of our existing portfolio, which will be very costly. In addition, future issuances will also result in a higher cost of capital and a lower degree of flexibility in managing our overall debt structure.

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 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 non-current. 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 suggest that existing VRDO financing arrangements in place be grandfathered from the proposed classification to avoid unnecessary additional costs and administrative burden.
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 David Kaubisch, VP of Finance (602) 747-4556 or myself (602) 747-8305.

Sincerely,

Dennis L. Laraway
Chief Financial Officer
Banner Health