

In Practice

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FINANCE

San Bernardino County Employees' Retirement Association

BY KATIE LUDWIG

In her first two years at the helm of the San Bernardino County Employees' Retirement Association (SBCERA), Debby Cherney is well on her way to accomplishing many of the goals she set for the organization. Chief among those was establishing a strategic plan for the organization and establishing a more collaborative work environment. Debby credits much of her early success to SBCERA's Fiscal Services leadership team.

Debby was hired as SBCERA's chief executive officer (CEO) in August 2018. SBCERA is a multi-employer pension plan that serves 18 public

employers and has roughly 42,000 members and 73 employees.

Debby explained that she was hired specifically to bring about an organizational change because at that time, the organization was hindered by internal distrust and dysfunction. As she described it, "The management team was not getting along well with each other, with the board, or with the staff." Perhaps as a reaction to this, the staff had recently voted to organize.

Debby was up for the challenge. One of her first goals when she arrived was to build a finance team that could work more collaboratively. She has found that in Chief Financial

Officer Amy McInerney, Accounting Manager Christina Cintron, and Accounting Manager Jayson Eaton.

“These three are all big initiators of things. They’re not shy,” Debby said.

Ever the team player, Amy chimed in, “We are lucky, though. We have a staff that puts up with us. They are very, very accommodating about our moving and shaking.”

ASSEMBLING THE TEAM

So, just how did Debby assemble this team of movers and shakers?

“I really just said, ‘look, if we’re going to do well as an organization, we have to be able to work together. We have to be able to identify and be open about the problems and challenges we see and work together to reach solutions that benefit our members,’” she explained.

One of Debby’s first moves was to promote Amy, who started with SBCERA as an accounting manager in 2015. After being promoted to CFO in December 2018, Amy leads the Fiscal Services team, which consists of 17 staff members.

Amy explained how her team performs all the typical duties of a finance department, in addition to providing support to the Member Services team, which is responsible for all of the tasks related to setting up a new retiree’s pension payments. She explained, “We do, you know, the normal things like produce CAFRs, and financial statements, and budgets and all sorts of reports. But also, we really support the Member Services team in the organization. We get all the normal fiscal stuff that feeds our accounting nerd soul, and then we get to serve our members. So it’s a really nice balance, and it keeps things really interesting and presents us with new problems to solve all the time.”

As CFO, one of Amy’s first moves was to promote Christina Cintron to accounting manager. Christina has been with SBCERA since 2014. “I started as a senior accountant with the organization, so I’ve been lucky enough to see the organization from a different perspective than a management perspective,” she explained.

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Debby Cherney, SBCERA CEO

Debby and Amy encourage staff at all levels to bring forth new ideas to improve SBCERA. Christina said, “I really like that I was able to come and present some of my ideas that I’ve had for years and that maybe didn’t go anywhere. Maybe the timing was weird. But I was able to come on and say, ‘Hey, you know, I think we can make some really good improvements to this process.’ And I’m lucky enough that I have a boss that was really receptive to those ideas.”

Christina expressed her appreciation for the open

communication and culture of collaboration that Debby and Amy encourage throughout the organization. “I’m able to have that open dialogue and not feel that I have to go along with everything. I can I say my point of view,” she said. “And I like to pass that on to my team as well. You know, we have an open door. If you find something that’s not working, cool, tell me about it.”

When another accounting manager position became vacant, Amy was able to promote Jayson. He was initially hired by SBCERA as a senior accountant in 2016 and was promoted to accounting manager in February 2020. He worked for Amy when she was an accounting manager and commented on the collaborative spirit she encourages.

“I was working primarily on investments, and I would just go over to her office, and if I had questions or thought that I saw something that could be changed or needed to be looked at differently, we could just talk about it,” Jayson explained. “She would throw out her ideas, and I would throw out mine, and we would just kind of work through it to see what conclusion we arrived at.”

He explained how important it is for leadership to set the tone so that a culture of learning and collaboration can take root throughout the entire organization. “I think one of the key things that Debby did was, in her first all-staff meeting, she used a video of a TED talk about tying your shoe laces, and that kind of stuck in everybody’s mind and gave that emphasis on being open to change and working together to come up with a better way to do things.”



DEVELOPING A STRATEGIC PLAN

For Debby, the first step in coming up with a better way to do things was to develop a strategic plan for the organization. At the time she was hired, SBCERA didn't have one. What the plan said was as important to her as how it was developed, and she wanted to ensure that its development was a group effort. As part of the process, she included all of the executive team, all of the staff, and the board in identifying the organization's shared values. This process resulted in five pillars around which the strategic plan is organized:

- Operational excellence and efficiency
- Superior service experience
- Quality employer and workplace
- Prudent fiscal management
- Effective communications

"The beauty of our strategic plan is that it was really a collective effort amongst all the staff and the board members," Amy said.

Each of the departments then organized a set of strategic priorities around each of the pillars and came up with their priorities after

considering how they wanted to advance the organization. The focus was on employees, on members, and on opportunities to challenge the way the organization had always done things.

"We do set goals that are in line with the SBCERA strategic pillars to try to help not only grow the department in that way, but to also grow with the organization and make sure that we're hitting all of those very important parts that we've all agreed upon," said Christina.

"What makes it so great is that we got to come together as a management team and sort of dream and formulate these new places we wanted to go," Amy said. "We got to do that as a group and there's nothing easier to get behind than something you helped design."

FOCUSING ON COLLABORATION TO SOLVE PROBLEMS

Another of the team's goals has been to break down departmental silos in order to find ways of providing better service. To this end, Jayson explained how SBCERA has undertaken an organization-

SBCERA's finance team focuses on a collaborative approach. Pictured above are CEO Debby Cherney, CFO Christina Cintron, and Accounting Managers Jayson Eaton and Amy McInerney.

wide effort to review processes and make improvements, using Six Sigma and similar tools. SBCERA has engaged with a third-party consulting firm to help with this effort. The consulting firm has held several meetings with staff throughout the organization to gain a deeper understanding of how certain processes work and to get people thinking about how to improve them.

"I think the approach that we've seen so far in those sessions is that it's very, very collaborative, where the people that are on the ground doing those tasks are being asked to explain what the process is, what headaches they've had," Jayson said. "And so it's really being presented as an opportunity for them to fix some of the things that they may have been frustrated with for a long time and weren't getting anywhere on or didn't feel



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Amy McInerney, SBCERA CFO

like they could bring it up.” He went on to explain how this approach has helped to obtain buy-in throughout the organization.

Amy agreed and added, “We really try and take the approach of embedding in the new process the ‘what’s-in-it-for-me mentality,’ so that all of our team members have a feeling of how this benefits them, even though it might create a little more work on the front end or it might create more work in the middle, but it’s producing a superior result, and that makes our all of our lives better.”

Amy believes another value of these process improvement conversations has been that staff are getting a better understanding of the overall goal of a particular process. “It’s really nice to have an environment where you can start to appreciate what everybody else’s role is. It’s sort of like peeling off

these blinders, and all of a sudden you start to see how your piece of the pie really fits in,” she said. “This exercise has really given them the opportunity to look at that pie and say, ‘Okay, I’m just a sliver in this, but now I see how what I do affects my borders, and how if I were to perhaps suggest doing this a little differently or doing my role differently or doing my neighbor’s role differently, how that might impact the whole process.’”

ADDRESSING CHALLENGES

Debby explained that not everyone in the organization has easily adapted to all of the change. “The reality is that there are some folks on the team who are struggling, whether they’re fearful that they won’t be able to do the job in the new way, or it’s just ‘this is how I do this.’”

The team has developed ways to address this challenge by being very deliberate about change management. They do their best to get at the root cause of why a particular staff member might be resistant to a given change.

“It’s rarely ever actual resistance,” explained Amy. “It’s usually just somebody who’s having a hard time connecting that new idea to what we all agreed on. So sometimes it’s as easy as just reconnecting those two and going back to those pillars. You sort of can get a conversation going with that person that invigorates them about that pillar, and then you just connect that back to that new idea, that new technology process, or the refinement, or whatever it is.”

Christina explained that it also helps to be sensitive to peoples’ feelings. “Here we are coming in and

changing the way somebody has done their job for the last 10 to 15 years. I have to take their feelings into consideration,” she said.

As an example, she talked about how SBCERA started a transition to a more digital environment at the beginning of the year. “We really wanted our system paperless. There’s so much so much paper that floats around, and there are so many chances that that paper gets lost or gets left on somebody’s desk and not handled properly,” Christina said.

This transition required some initial discussions with staff to prepare them and figure out how to make them more comfortable with the change. In some cases, this has meant conducting additional training to get people used to using the new technology tools.

This strategy seems to have worked. “Everybody has seemed to come around to the new technology and embraced it, actually,” she said. She also mentioned how the transition to a more digital environment made maintaining operations during the COVID-19 office closure much easier.

RELIEVING STRESS

Debby acknowledged that despite all the efforts to create a collaborative work environment, the nature of the work at SBCERA can sometimes create a lot of stress. As an example, she described how back in 2015, before her arrival, a terrorist attack occurred in San Bernardino County, not far from SBCERA’s offices. SBCERA staff had to process the claims of people who died in that attack and the claims of people who retired on disability related to the injuries and/or trauma resulting from it. More recently, she mentioned that



The team has started transitioning to a digital environment, with a goal of making their system paperless.

processing the claims of people who have passed away from COVID-19 has been quite stressful for staff.

Debby and her management team try to do whatever they can to create a less stressful workplace. Debby explained that the SBCERA staff are all “really big fans of food.” She said that staff normally organize a monthly potluck and lamented that they might have to give this up due to COVID-19-related precautions when the team returns to the office. She added that Halloween is a highlight at SBCERA. More than half of the staff dress up in costumes, and there are contests for best team costume and best individual costume.

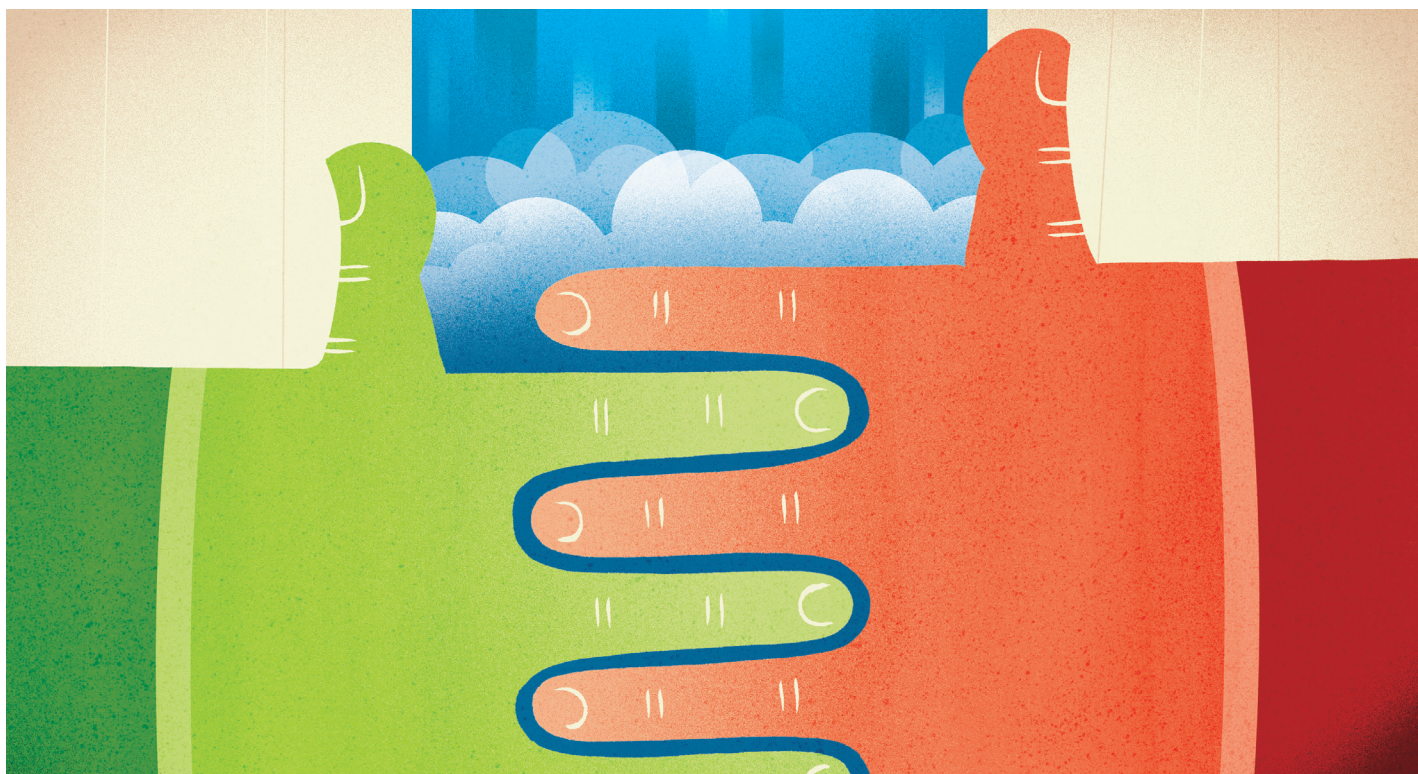
“What I really like is that we do celebrate milestones in people’s personal lives,” said Christina. Being away from the office has not put an end to these celebrations, either. The staff were planning a Zoom baby shower for a colleague and

were eager to see how they could incorporate the traditional baby shower games into this new format.

Debby sees these types of gatherings as valuable opportunities for all staff to get to know one another on a personal level. “When conflict arises, which it inevitably will, it’s less likely that we won’t be able to come together because we know, like, and respect each other as people, and it’s not just that person down the hall that’s making my life difficult today,” she explained.

Debby also mentioned that prior to each flu season, everybody gets a little care package of things for their desk. “We just really try to make sure people know that we appreciate the hard work they put in. Sometimes their jobs can be incredibly stressful,” she said. ❏

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Let's Be Partners

BY MICHELE MARK LEVINE

For those keeping track, Government Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, has fared somewhat worse as far as longevity than most GASB pronouncements. Issued in November 2010 and effective for periods that began after December 15, 2011, GASB 60's days are numbered and its successor already ordained—although much of its spirit will live on. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), which was issued in March 2020, will supersede GASB 60 when it becomes effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.¹ The rapidity with which GASB 60 is being superseded attests to the increasing frequency and variety

of ways in which governments seek to provide public services effectively and cost efficiently.

Public-Private and Public-Public Partnerships

As discussed in the August 2019 issue of *Government Finance Review*,² GASB 94 can be thought of as a cross between the prior guidance on service concession arrangements (SCAs) and GASB Statement No. 87, *Leases*. The definition of a public-private or public-public partnerships (PPP) in some ways parallels that of a lease,³ while incorporating an essential element of an SCA—the required use of the underlying asset for the provision of public services. GASB 94 defines a PPP as “an arrangement in which a government (the transferor) contracts with an operator to provide public services, by conveying control of the right to operate or

use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.”⁴ Like for leases, either one or both parties to a PPP might be governments; the transferor will always be a government, and an operator may be either governmental or private-sector.

GASB 94 augments the prior SCA standards, incorporating a category of PPPs that are not SCAs or leases, in order to provide guidance on arrangements in which the transferor *does not own* or have control over the underlying PPP asset that is used for providing public services, as it would have control of the underlying asset an SCA.

The expansion in scope is limited, however, as certain PPPs that meet the requirements to be leases—and are not SCAs—are required to be accounted

for as leases, following GASB 87 rather than GASB 94.⁵ See Exhibit 1 for a representation of the intersection of the scopes of these two statements.

As mentioned above, much of the generally accepted accounting principles and reporting for PPPs very closely parallel those for leases, including:

- The method and provisions of the PPP agreement used in calculating the term of a PPP, and under what circumstances that term is reassessed.
- The measurement of PPP liabilities by operators, and of PPP receivables by transferors, calculated using the present value of similar types of expected future payments and using a discount rate that is determined in a similar manner.⁶
- Requirements for the amortization of the intangible right-to-use asset and deferred inflows of resources, impairments, multiple-component PPPs, and PPP modifications and terminations.

For accounting and financial reporting purposes, PPPs (other than those that will follow the leases guidance) are divided into three categories, based first on the source of the underlying asset

and then, for new assets constructed or acquired by the operator, based on whether or not the PPP is also an SCA.

The definition of a public-private or public-public partnerships (PPP) in some ways parallels that of a lease, while incorporating an essential element of an SCA—the required use of the underlying asset for the provision of public services.

The three categories are:

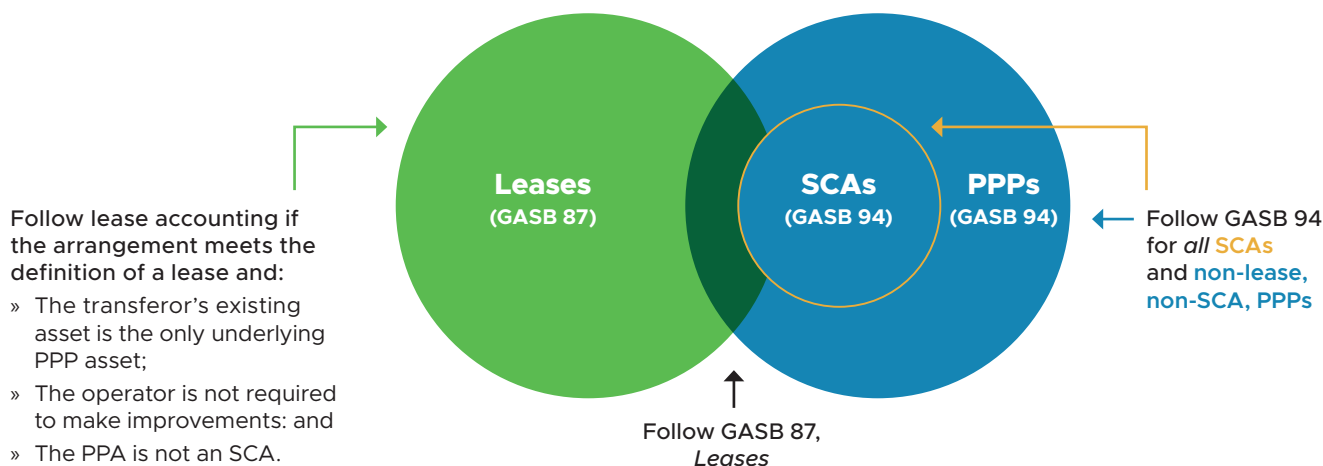
1. PPPs in which the underlying asset is an existing asset of the transferor government, including those to which the operator will make improvements.
2. PPPs in which the underlying asset is a new asset constructed or acquired by the operator, and the PPP is also an SCA.
3. PPPs in which the underlying asset is a new asset constructed or acquired by the operator, and the PPP is not an SCA.

For reporting in accordance with the economic resources measurement focus and full accrual basis of accounting, recognition and measurement includes the value of any new underlying PPP assets, as well as any improvements to existing underlying PPP assets. Except for those PPPs in the third group, it is the transferor that will be recognizing the underlying PPP assets, and the operator will recognize its intangible right to use the underlying PPP assets, which itself is a capital asset. For PPPs in that third group, since the operator owns and controls the underlying PPP assets, it will carry the underlying PPP asset. Specifically, other than in governmental funds, recognition for PPPs in each group are as follows.

For PPPs in the first group

- A transferor will:
 - Continue to recognize its existing underlying asset just as prior to the PPP,⁷
 - Recognize the present value of any installment payments that will be made by the operator to the transferor as a PPP receivable,⁸
 - Recognize any improvement to the underlying PPP asset

Exhibit 1: The Intersection between the Scopes of GASB 87 and GASB 94



made by the operator when the improvement is placed into service, at the acquisition value⁹ of that date, and

- Recognize deferred inflows of resources for the total of the receivable, the acquisition value of any improvements, and up-front payments received from the operator, if any.¹⁰
- **A governmental operator will:**
 - Recognize the present value of any installment payments as a PPP liability,¹¹ and
 - Recognize an intangible capital asset for the right-to-use the underlying PPP asset (the right-to-use asset) for the total of the liability, cost of any improvements made by the operator to the underlying PPP asset, any upfront payments made to the transferor, and any ancillary costs.^{12, 13}

For PPPs in the second group

- **A transferor will:**
 - Recognize the present value of any installment payments as a PPP receivable,¹⁴
 - Recognize the new underlying PPP asset purchased or constructed by the operator when it is placed into service, at the acquisition value¹⁵ as of that date,¹⁶ and
 - Recognize deferred inflows of resources for the total of the receivable, the acquisition value of the new underlying PPP asset, and upfront payments received from the operator, if any.¹⁷
- **A governmental operator will:**
 - Recognize the present value of any installment payments as a PPP liability,¹⁸
 - Recognize the cost of purchasing or constructing the underlying PPP asset *until it is placed into service* (at which time it will be recognized by the transferor), and
 - Recognize a right-to use asset for the total of the liability, upfront

payments made to the transferor, cost of new underlying PPP asset, and any ancillary costs.¹⁹

When PPPs in either of the first two categories are accounted for in governmental funds, the capital assets—both the *underlying* PPP assets and the *intangible* right-to-use assets—are, of course, excluded from the governmental funds. Correspondingly, the portion of the transferor's deferred inflow of resources related to a new underlying PPP asset or to improvements made by the operator to an existing underlying PPP asset are also excluded from the governmental fund. This leaves only the financial resources elements of PPPs (installment payments and up-front payments, if any) to be accounted for at the fund level, and all other elements need to be added in the process of adjusting

Exhibit 2: Summary of GASB 94 Requirements for Transferor and Operator Notes

Transferor Notes

- » General description
- » Nature and amounts of assets and deferred inflows of resources recognized
- » Discount rate(s)
- » Inflows for period not previously in receivable
- » Nature and extent of rights of parties

Operator Notes

- » General description
- » Nature and amounts of assets, liabilities, and deferred outflows of resources recognized
- » Discount rate(s)
- » Principal and interest to maturity schedule
- » Outflows for period not previously in liability
- » Nature and extent of rights of parties
- » Components of any impairment loss

governmental fund financial statements to the total economic resources measurement focus and accrual basis of accounting used in government-wide financial statements, as with other general governmental capital assets.

The recognition and measurement for PPPs in the third group is different because the *operator* maintains ownership and control over the underlying asset during some or all of the period it is in service during the PPP term.

For PPPs in the third group (other than for reporting in governmental funds)

- **A transferor will:**
 - Recognize a receivable for the underlying PPP asset purchased or constructed by the operator when it is placed into service, at the operator's estimated carrying value as of the date that the transferor is expected to assume ownership,²⁰
 - Recognize the present value of any installment payments as a PPP receivable,²¹
 - Recognize a deferred inflow of resources for the total of the installments receivable, receivable for the new underlying PPP asset, and upfront payments received from the operator, if any.²²
- **A governmental operator will:**
 - Recognize a liability for the obligation to transfer ownership of the underlying PPP asset to the transferor, in the amount of the operator's estimated carrying value of the underlying PPP asset as of the date that the transferor is expected to assume ownership,
 - Recognize the present value of any installment payments as a PPP liability,²³ and
 - Recognize a deferred outflow of resources—not an intangible right-to-use asset—for the total of the installment liability, the liability to transfer the new underlying PPP asset, any upfront payments to the transferor, and any ancillary costs.²⁴

Exhibit 3: Comparing and Contrasting PPPs and APAs

	PPP	APA
Parties	<ol style="list-style-type: none"> 1. Transferor (governmental) 2. Operator (governmental or nongovernmental) 	<ol style="list-style-type: none"> 1. Government 2. Operator (governmental or nongovernmental)
Purpose	Transferor contracts with operator to <i>provide public service</i> by transferring the right to operate or use an underlying nonfinancial asset (PPP underlying asset)	Government contracts with operator to obtain services including design, construction, financing, maintenance and/or operation of an underlying nonfinancial asset
Control of underlying assets	Either party during term, transferor by end of term (for an SCA, always transferor)	Government
Compensation for Operator	From 3rd parties or from transferor, generally based on level of usage or revenue generated from use or operation of underlying asset	From government, based only on availability, <i>not</i> based on level of usage

For a PPP in the third category that is accounted for in a governmental fund, (1) the transferor's receivable for the underlying PPP asset and (2) its related deferred inflow of resources, as well as (3) the new underlying PPP asset owned by the operator, (4) the operator's liability to transfer ownership of that underlying PPP asset to the transferor, and (5) the related deferred outflow of resources, are all excluded from the governmental fund.

GASB 94 includes requirements for notes to basic financial statements for both transferors and governmental operators. Exhibit 2 provides a brief summary of these disclosure requirements.

Availability Payment Arrangements

Availability payment arrangements (APAs), in contrast to PPPs, are simply vehicles through which governments pay to have another party (an operator) design, construct, finance, maintain, and/or operate a nonfinancial asset.²⁵ Exhibit 3 compares and contrasts

certain features of PPPs (including SCAs) and APAs.

The key to proper accounting for APAs is distinguishing between those APAs, or components thereof, that are, in substance, financed purchases of the underlying capital asset, and those that are simply service contracts that result in expenses or expenditures each period, and reporting each accordingly.²⁶ GASB 94 provides guidance on how to allocate costs among components, when that is both necessary and practicable.²⁷ As for leases, if allocation is not practicable, an entire APA may be accounted for as a single contract, based on the character of the primary component.²⁸ ¶

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Detailed examples including calculations and journal entries for each type of PPP and an APA with multiple components are available as a companion to this article at gfoa.org/JuneGFRaccounting. These files will be available through 2020.

¹ Early application is encouraged. GASB 94, paragraph 84.

² The article, "We've Seen the Future and it Looks Like Leases," addressed similarities between lease guidance and exposure drafts of what subsequently became GASB 94 and GASB Statement No. 96, Subscription-based Information Technology Arrangements. While no significant changes were made to the substance of the accounting and financial reporting guidance between the exposure draft and GASB 94, the guidance has been reordered and somewhat clarified.

³ A lease is defined in GASB 87, paragraph 4, "as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction."

⁴ GASB 94, paragraph 5.

⁵ GASB 94, paragraph 9.

⁶ The circumstances under which remeasurement is required are also similar.

⁷ In addition, the transferor should continue to apply all requirements appropriate for capital assets, although depreciation should be discontinued if the operator is required to return the underlying asset in the original or improved condition (GASB 94, paragraphs 18 and 20).

⁸ GASB 94, paragraph 14.

⁹ GASB 94, paragraphs 14 and 21.

¹⁰ GASB 94, paragraph 16 and 32.a, b, and d.

¹¹ GASB 94, paragraph 37.

¹² Specifically, "Initial, direct costs that are ancillary charges necessary to place the right-to-use asset into service" are capitalized, however debt issuance costs are excluded. (GASB 94, paragraph 49.)

¹³ GASB 94, paragraph 19.

¹⁴ GASB 94, paragraph 14.

¹⁵ GASB 94, paragraphs 14 and 21.

¹⁶ Once recognized, the transferor should apply all requirements appropriate for capital assets, although depreciation should not be recorded if the operator is required to return the underlying asset in the original or improved condition (GASB 94, paragraph 20).

¹⁷ GASB 94, paragraph 15 and 32a-c.

¹⁸ GASB 94, paragraph 38.

¹⁹ GASB 94, paragraph 49.

²⁰ GASB 94, paragraph 31.

²¹ GASB 94, paragraph 14.

²² GASB 94, paragraph 32.a, b, and d.

²³ GASB 94, paragraph 37.

²⁴ GASB 94, paragraph 39.

²⁵ GASB 94, paragraph 7.

²⁶ GASB 94, paragraph 76.

²⁷ GASB 94, paragraphs 79-81.

²⁸ GASB 94, paragraphs 82-83.