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## Let's Be Partners

BY MICHELE MARK LEVINE

**F**or 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.<sup>1</sup> The rapidity with which GASB 60 is being superseded attests to the increasing frequency and variety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*,<sup>2</sup> 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,<sup>3</sup> 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.”<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup>
- 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.

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#### The three categories are:

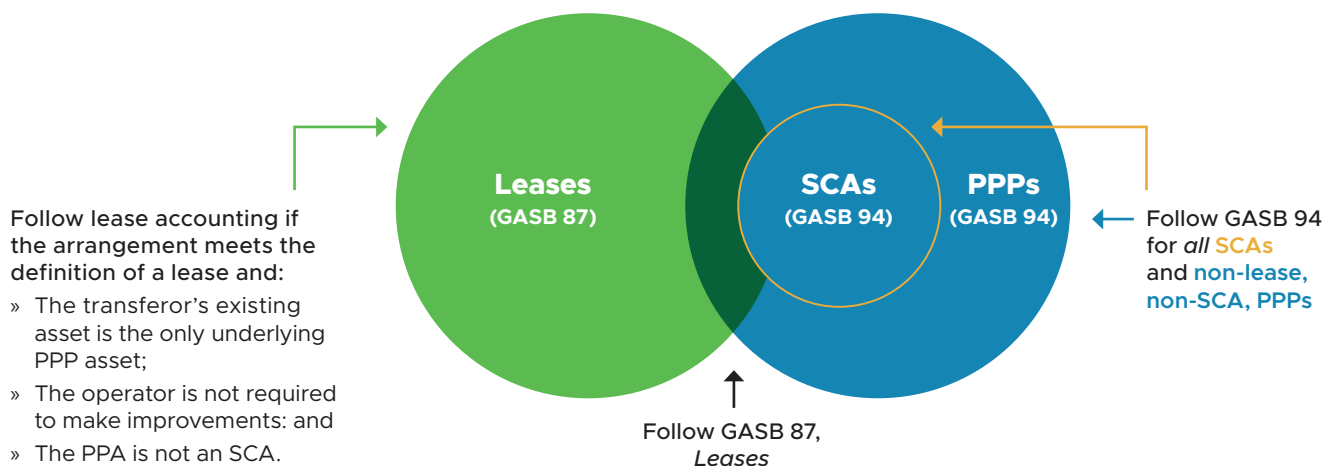
1. PPPs in which the underlying asset is an existing asset of the transferor government, including those to which the operator will make improvements.
2. PPPs in which the underlying asset is a new asset constructed or acquired by the operator, and the PPP is also an SCA.
3. PPPs in which the underlying 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,<sup>7</sup>
  - Recognize the present value of any installment payments that will be made by the operator to the transferor as a PPP receivable,<sup>8</sup>
  - 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 value<sup>9</sup> 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.<sup>10</sup>
- **A governmental operator will:**
  - Recognize the present value of any installment payments as a PPP liability,<sup>11</sup> 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.<sup>12, 13</sup>

#### For PPPs in the second group

- **A transferor will:**
  - Recognize the present value of any installment payments as a PPP receivable,<sup>14</sup>
  - Recognize the new underlying PPP asset purchased or constructed by the operator when it is placed into service, at the acquisition value<sup>15</sup> as of that date,<sup>16</sup> 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.<sup>17</sup>
- **A governmental operator will:**
  - Recognize the present value of any installment payments as a PPP liability,<sup>18</sup>
  - 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.<sup>19</sup>

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,<sup>20</sup>
  - Recognize the present value of any installment payments as a PPP receivable,<sup>21</sup>
  - 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.<sup>22</sup>
- **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,<sup>23</sup> 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.<sup>24</sup>



### Exhibit 3: Comparing and Contrasting PPPs and APAs

|                                     | PPP   | APA   |
|-------------------------------------|---|---|
| <b>Parties</b>                      | <ol style="list-style-type: none"> <li>1. Transferor (governmental)</li> <li>2. Operator (governmental or nongovernmental)</li> </ol>                                   | <ol style="list-style-type: none"> <li>1. Government</li> <li>2. Operator (governmental or nongovernmental)</li> </ol>  |
| <b>Purpose</b>                      | 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 |
| <b>Control of underlying assets</b> | Either party during term, transferor by end of term (for an SCA, always transferor)   | Government  |
| <b>Compensation for Operator</b>    | 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.<sup>25</sup> 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.<sup>26</sup> GASB 94 provides guidance on how to allocate costs among components, when that is both necessary and practicable.<sup>27</sup> 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.<sup>28</sup> 

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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](http://gfoa.org/JuneGFRaccounting). These files will be available through 2020.

<sup>1</sup> Early application is encouraged. GASB 94, paragraph 84.

<sup>2</sup> 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.

<sup>3</sup> 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."

<sup>4</sup> GASB 94, paragraph 5.

<sup>5</sup> GASB 94, paragraph 9.

<sup>6</sup> The circumstances under which remeasurement is required are also similar.

<sup>7</sup> 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).

<sup>8</sup> GASB 94, paragraph 14.

<sup>9</sup> GASB 94, paragraphs 14 and 21.

<sup>10</sup> GASB 94, paragraph 16 and 32.a, b, and d.

<sup>11</sup> GASB 94, paragraph 37.

<sup>12</sup> 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.)

<sup>13</sup> GASB 94, paragraph 19.

<sup>14</sup> GASB 94, paragraph 14.

<sup>15</sup> GASB 94, paragraphs 14 and 21.

<sup>16</sup> 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).

<sup>17</sup> GASB 94, paragraph 15 and 32a-c.

<sup>18</sup> GASB 94, paragraph 38.

<sup>19</sup> GASB 94, paragraph 49.

<sup>20</sup> GASB 94, paragraph 31.

<sup>21</sup> GASB 94, paragraph 14.

<sup>22</sup> GASB 94, paragraph 32.a, b, and d.

<sup>23</sup> GASB 94, paragraph 37.

<sup>24</sup> GASB 94, paragraph 39.

<sup>25</sup> GASB 94, paragraph 7.

<sup>26</sup> GASB 94, paragraph 76.

<sup>27</sup> GASB 94, paragraphs 79-81.

<sup>28</sup> GASB 94, paragraphs 82-83.