

PPP Examples

What follows are examples of public/private and public/public partnerships and availability payment arrangements used to illustrate provisions of GASB Statement No. 94, *Public/Public and Public/Private Transactions and Availability Payment Arrangements and Availability Payment Arrangements*. They were developed as a companion to an article in the August 2020 issue of Government Finance Review entitled “Let’s Be Partners.” The assumptions, methods of estimation, and other factors regarding the recognition and measurement of various aspects of the transactions are not necessarily the only acceptable or the best options.

GFOA urges all governments to carefully consider all aspects of their own actual or contemplated transactions, apply their best professional judgement to their unique facts and circumstances to determine the most appropriate application of generally accepted accounting principles (GAAP), and consult with their independent auditors and other appropriate parties (including, as applicable, state government oversight authorities and grantors) before making any accounting and financial reporting decisions. These measures are especially important with regard to transactions and events that are new to the government and/or that are the subject of newly-implemented GAAP.

Example 1: The underlying PPP asset is an existing asset of the transferor government to which the governmental operator will subsequently make significant improvements

Previously, the County of Example (the County) had traded a vacant parcel of land with a local school district, which used the parcel to build a new high school, and in exchange deeded the old high school building and the land under and surrounding it to the County.

On January 1, 20X0, the County enters into a 25-year arrangement with the State College System (the System), a component unit of the State in which the County is located, to use the old high school building as a satellite teaching site. Additional key provisions of the arrangement include:

- The System will pay the County \$120,000 on January 1st of each year for the life of the arrangement, beginning on January 1, 20X0.
- The County is obligated to improve and maintain the surrounding driveways, parking lots and grounds.
- The System is required to provide both credit-bearing and lifetime learning (non-credit) educational programs that will be open to the public that will prepare/re-train students for jobs in science and technology, with priority given to residents of the County.
- The tuition and fees to be charged by the System for courses held in the improved building, as well as any additional uses of the space, must be approved by the County.
- The arrangement meets the criteria to be a service concession arrangement (SCA).

The System will make improvements to the existing building in two phases, as follows:

- Phase one improvements will be placed into service on September 1, 20X0, and will include replacement of the roof and windows, and bringing the building into compliance with current building codes so that classes can begin in a portion of the building. These building improvements will have a total cost of \$200,000 and have an expected useful life of 50 years.
- Phase two improvements will be placed into service on September 1, 20X2, and will include substantial renovation to create teaching laboratories and classrooms, upgrade the building's mechanical systems, upgrade technology infrastructure, renovate the remaining space, and make other improvements to the building and grounds. These improvements will be:
 - Composed of:
 - \$1,750,000 of building improvements that have an expected useful life of 50 years, and
 - \$250,000 of equipment, furniture, fixtures, and other improvements (hereafter referred to as furniture & fixtures) with an expected useful life of 25 years.
 - Incurred as follows:

| Costs incurred | Phase 1 improvements | Phase 2 improvements | Phase 2 furniture & fixtures |
|----------------|----------------------|----------------------|------------------------------|
| 1/1 – 8/31/X0 | \$200,000 | | |
| 9/1 – 12/31/X0 | | \$250,000 | |
| 1/1 – 12/31/X1 | | 900,000 | |
| 1/1 – 8/31/X2 | | 600,000 | \$250,000 |

Additional information:

- The County’s acquisition value of the old high school building was \$110,000, with \$10,000 of accumulated depreciation as of the inception of the SCA. The building’s remaining useful life was re-estimated at that time to match the 50-year term of the improvements.
- The County has a fiscal year ending on June 30th.
- The System has a fiscal year ending on December 31st.
- Both the County and the System follow governmental accounting and report the SCA in their general funds.
- The County’s annual charge to the System was calculated using a 5% interest rate, and this information is known to both parties.
- The County and the System both use a straight-line method and a full-year convention for depreciation of tangible capital assets and for amortization of intangible capital assets, and assume no residual value. (Entities using a full-year convention record a full year of depreciation or amortization for all depreciable/amortizable assets placed into service at any time during the fiscal year.)
- The County uses a straight-line method and a full-year convention for amortizing its deferred inflows of resources from the SCA.

Example 2: The underlying PPP asset is a new asset constructed by the governmental operator under a service concession arrangement

Same facts as Example 1, above, except for the following:

- There is no existing building on the parcel of land that will be the site of the new building
- The new assets will be composed of:
 - A new building with a total cost of \$1,950,000 and an estimated useful life of 50 years

- Equipment, furniture, fixtures, and other improvements (hereafter referred to as furniture & fixtures) with a total cost of \$250,000 and an expected useful life of 25 years
- The System reports as a stand-alone BTA with a June 30th FYE (the County again has a June 30th FYE and again follows governmental accounting and accounts for the arrangement in its general fund).
- Costs for constructing and outfitting the new building incurred by the System are as follows:

| Costs incurred | Building improvements | Furniture & fixtures | Total |
|------------------|-----------------------|----------------------|-------------|
| 1/1 – 6/30/X0 | \$ 160,000 | | \$ 160,000 |
| 7/1/X0 – 6/30/X1 | 640,000 | | \$ 640,000 |
| 7/1 – 6/30/X2 | 950,000 | \$175,000 | \$1,125,000 |
| 7/1 – 8/31/X2 | 200,000 | 75,000 | \$ 275,000 |
| Total | \$1,950,000 | \$250,000 | \$2,200,000 |

Example 3: The underlying PPP asset is a new asset constructed by a governmental operator under an arrangement that is not an SCA

The County of Example (the County) owns a vacant parcel of land in Sample City (the City), a City within the County. On July 1st, 20X0, the County enters into an arrangement with the City, which operates other recreational facilities, for the City to construct and operate an indoor ice rink meeting professional hockey league specifications and with substantial spectator capacity (the Facility), for the purpose of providing a public recreation facility. The term of the contract is 20 years.

The City can rent the facility out for use by local youth and adult hockey leagues, public and private skating lessons and recreational use, as well as for private events and/or for performances, or use it for any other lawful purpose. The County will have no say over the prices charged by the City. The City will pay the County \$5,000,000 upon the inception of the contract, with no other payments required over the life of the arrangement. The City will own the Facility until the end of the arrangement, at which time it is required to transfer ownership to the County.

Additional information:

- Prior to entering into this arrangement, the County explored the option of constructing and operating an ice rink/stadium meeting the same specifications by itself. The total cost of that facility was estimated to be \$3,000,000; it was expected to take three years to construct and to have an estimated useful life of 25 years.
- Both the County and the City:
 - Use the straight line depreciation method and a full-year depreciation convention.
 - Have a June 30th FYE
 - Report the PPP in their general funds
- Costs for constructing and outfitting the new building incurred by the System are as follows:

| Costs incurred | Construction of ice rink facility |
|------------------|-----------------------------------|
| 7/1/X0 – 6/30/X1 | \$1,000,000 |
| 7/1/X1 – 6/30/X2 | \$1,000,000 |
| 7/1/X2 – 6/30/X3 | \$1,000,000 |
| Total | \$3,000,000 |

Example 4: Availability Payment Arrangement With Financed Purchase and Operation & Maintenance Components

On July 1, 20X0, The County of Example (the County) enters into a design-construct-maintain-operate agreement with a for-profit business entity, Ice Sports Facilities, Inc. (the Company) for the Company to construct and operate an indoor ice rink meeting professional hockey league specifications and with substantial spectator capacity (the Facility), for the purpose of providing a public recreation facility. Under the terms of the contract, the County will pay the Company \$700,000 per month for each month during the 20 year term (ending June 30, 20Z0) during which the Facility is fully operational as defined in the agreement (meeting specified criteria for being in a state of good repair, as well as being fully staffed and supplied).

The County will own the Facility once it is placed into service. The County will make all decisions regarding the manner, days and times of use of the Facility and fees charged for private use, public admission, and concession; and the Company remits all collections to the County. The County estimates that approximately 20% of the monthly payments represent Company's overhead and profit, and the remainder is attributable to the County's financed purchase of the Facility and the on-going cost of maintaining, staffing, supplying and otherwise operating the Facility.

Other assumptions:

- Prior to entering into this arrangement, the County explored the option of constructing and operating an ice rink/stadium meeting the same specifications by itself:
 - Construction costs were expected to be \$25,000,000, excluding financing costs
 - Construction was expected to take three years
 - Building was expected to have an estimated useful life of 25 years.
 - The annual operating and maintenance cost (excluding capital and financing) would have been approximately \$4,500,000 per year
 - The annual revenue generated from all uses of the facility, including concessions, would have been approximately \$6,500,000.
- The contract will be accounted for in the County's general fund.
- The Facility meets the standards to be fully operational beginning on July 1, 20X3.
- The County uses straight-line depreciation with a full-year convention and estimates a useful life of 25 years for the Facility.
- The County does not know the interest rate charged by the operator for the financed purchase component of the APA, but can infer the rate using the above estimates of costs of other components of the arrangement.