GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements Overview

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I. GASB 94 OVERVIEW

In March 2020, the Government Accounting Standards Board (GASB) issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). GASB 94 is effective for the State of California Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2023

PPP Definition

GASB 94 defines a PPP as an arrangement in which a government (or transferor) contracts with an operator (which can be a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

A contract conveys control of the right to use the asset when the government is provided with both of the following:

1. The right to obtain service level capacity from use of the asset as specified in the contract, and
2. The right to determine the nature and manner of use of the asset.

In an exchange or exchange-like transaction, the government receives and gives up essentially equal or near-equal values.

It is important to note that the State could potentially be a transferor or operator depending on the details of the PPP contract. The underlying PPP asset can be an existing asset of the transferor, or newly purchased or constructed assets of the operator, or existing asset of the transferor that will be improved by the operator.

Service Concession Arrangement Definition

A PPP can also meet the definition of a Service Concession Arrangement (SCA) when all of the following criteria is met (see decision chart) :

1. The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
2. The operator collects and is compensated by fees from third parties.
3. The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.
4. The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

PPPs That Are Leases

Per GASB 94, a government that has a PPP that meets the definition of a lease should apply the accounting and financial reporting guidance in Statement No. 87, *Leases*, as amended (see decision chart), if:

1. Existing assets of the transferor are the only underlying PPP assets,
2. Improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement, and
3. The PPP does not meet the definition of an SCA as noted above.

PPPs Other Than Those That Are Leases

The PPP term is defined as the period during which an operator has a noncancellable right to use an underlying PPP asset[1] (referred to as the noncancellable period), plus the following periods, if applicable:

- Periods covered by an operator's option to extend the PPP if it is reasonably certain, based on all relevant factors, that the operator will exercise that option
- Periods covered by an operator's option to terminate[2] the PPP if it is reasonably certain, based on all relevant factors, that the operator will not exercise that option
- Periods covered by a transferor's option to extend the PPP if it is reasonably certain, based on all relevant factors, that the transferor will exercise that option
- Periods covered by a transferor's option to terminate the PPP if it is reasonably certain, based on all relevant factors, that the transferor will not exercise that option.

PPP term should be reassessed if only one or more of the following occur:

- The transferor or the operator elects to exercise an option even though it was previously determined that it was reasonably certain that the transferor or the operator would not exercise that option.
- The transferor or the operator elects not to exercise an option even though it was previously determined that it was reasonably certain that the transferor or the operator would exercise that option.
- An event specified in the PPP arrangement that requires an extension or termination of the PPP takes place.

[1] Periods for which both the operator and the transferor have an option to terminate the PPP without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the PPP term.
[2] An option to terminate is an unconditional right that exists within the contract. A provision that gives a transferor or operator the right to terminate the PPP only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the contract, should not be considered an option to terminate the PPP for purposes of determining the PPP term.

PPP with Multiple Components

A transferor or an operator may enter into PPP arrangements that contain multiple components, such as a contract that contains both a PPP component and a non-PPP component, or a PPP that contains multiple underlying PPP assets. If a government enters into an PPP that contains both a PPP component (such as the right to operate a facility) and a non-PPP component (such as maintenance services for the facility), the transferor or the operator should account for the PPP and non-PPP components as separate arrangements. If the contract does not include prices for individual components, or if any of those prices appear to be unreasonable, the government should use professional judgment to determine its best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single contract

II. TRANSFEROR ACCOUNTING AND REPORTING

GASB 94 groups the recognition and measurement guidance for PPPs that are not required to apply the provisions of GASB 87 into three types for both the Transferor and Operator as follows:

1. The underlying PPP asset is owned by the transferor and that underlying PPP asset may be improved by the operator.
2. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does meet the definition of an SCA.
3. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does not meet the definition of an SCA.

Existing Asset of the Transferor

GASB 94 requires the transferor government, at the commencement of the PPP term, to recognize the following:

1. Continue to recognize the existing underlying PPP asset at its carrying value.
2. A Receivable for Installment Payments, if any, to be received in relation to the PPP.
3. A Deferred Inflow of Resources.
4. An Asset for Improvements[3], if any, made by the operator to an existing underlying PPP asset of the transferor, at acquisition value when placed into service.

The transferor government should apply all other accounting and financial reporting requirements relevant to an underlying PPP asset, recognized, including depreciation and impairment unless the operator will return the asset to its original condition.

[3] Improvements increase the capacity or efficiency of the underlying PPP asset rather than preserve its useful life. For underlying PPP assets that are not reported using the modified approach, improvements also may extend the useful life of the underlying PPP asset.

New Asset Purchased or Constructed By Operator and Meets the Definition of an SCA

GASB 94 requires the transferor government to recognize the following:

1. An Asset for the purchased or constructed underlying PPP asset when the asset is placed into service at its acquisition value.
2. A Receivable for Installment Payments, if any, to be received in relation to the PPP at the commencement of the PPP term.
3. A Deferred Inflow of Resources at the commencement of the PPP term.

The transferor government should apply all other accounting and financial reporting requirements relevant to an underlying PPP asset, recognized, including depreciation and impairment unless the operator will return the asset to its original condition.

New Asset Purchased or Constructed By Operator and Does Not Meets the Definition of an SCA

GASB 94 requires the transferor government to recognize the following:

1. A Receivable for the Underlying PPP Asset purchased or constructed to be received from the operator when the asset is placed into service and measured at the operator's estimated carrying value of the same asset on the expected date of transfer to the government. The receivable should be remeasured if there is a change in the PPP term (modification or termination) that significantly affects the carrying value.
2. A Receivable for Installment Payments, if any, to be received in relation to the PPP asset when placed into service.
3. A Deferred Inflow of Resources, when the PPP asset is placed into service.

The transferor government should apply all other accounting and financial reporting requirements relevant to an underlying PPP asset, recognized, including depreciation and impairment unless the operator will return the asset to its original condition.

Receivable for Installment Payments

The transferor government should measure a Receivable for Installment Payments, if any, to be received in relation to the PPP at the present value of PPP payments expected to be received during the PPP term, reduced by any provision for uncollectible amounts. Payments to be included in the measurement of the receivable are fixed payments, variable payments based on an index or rate, fixed-in-substance payments, and any residual value guarantee payments that are fixed in substance. Future payments should be discounted using the rate the government transferor charges the operator which may be explicitly stated in the contract. If not, the rate promulgated by the state shall be used (see incremental borrowing rate). The receivable for installment payments should be amortized over the term of the PPP and recognize an inflow of resources for the interest revenue and a reduction of the receivable for installment payments. The receivable should be remeasured if there is a change in the PPP term (modification or termination), a change in the rate the transferor charges the operator, or variable payments become fixed in nature and these changes would significantly affect the value of the receivable. A receivable for installment payments should not be remeasured solely for a change in an index or a rate used to determine variable payments.

Deferred Inflow of Resources

A Deferred Inflow of Resources should be measured in relation to a PPP as the sum of assets when they are recognized such as the value of payments received at or before commencement, initial value of receivable for installment payments, the initial value of the purchased or constructed underlying PPP asset, the initial value of improvements made to the underlying PPP asset, and the initial value of receivable for the underlying PPP asset. The deferred inflow of resources should be systematically and rationally reduced and recognized as inflows of resources over the PPP term. If any of the related assets of the PPP are remeasured, the deferred inflow of resources should be adjusted by the same amount.

Disclosures Required of Government Transferors

1. GASB 94 requires the transferor government disclose the following about its PPP activities (which may be grouped for purposes of disclosure):
   - A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which any variable payments not included in the measurement of the receivable for installment payments are determined
   - The nature and amounts of assets and deferred inflows of resources related to PPPs that are recognized in the financial statements
   - The discount rate or rates applied to the measurement of the receivable for installment payments, if any
   - The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the receivable for installment payments, including inflows of resources related to residual value guarantees and termination penalties
   - The nature and extent of rights retained by the transferor or granted to the operator under the PPP arrangements.
2. For PPPs that include provisions for guarantees and commitments, the transferor government is required to disclose the guarantees and commitments, including identification, duration, and significant contract terms, for each period in which the guarantees or commitments exist.

III. OPERATOR ACCOUNTING AND REPORTING

Existing Asset of the Transferor OR New Asset Purchased or Constructed By Operator and Meets the Definition of an SCA

GASB 94 requires the operator government to recognize and measure the following at the commencement of the PPP term:

Liability for Installment Payments

A Liability for Installment Payments, if any, to be made in relation to the PPP, at the present value of PPP payments expected to be made over the term. Payments to be included in the measurement of the liability are fixed payments, variable payments based on an index or rate, fixed-in-substance payments, any residual value guarantee payments that are fixed in substance, and termination penalties. Future payments should be discounted using the rate the government transferor charges the operator which may be explicitly stated in the contract. If not, the rate promulgated by the state shall be used (see incremental borrowing rate). The liability for installment payments should be amortized over the term of the PPP and recognize an outflow of resources for the interest expense and a reduction of the liability for installment payments. The liability should be remeasured if there is a change in the PPP term (modification or termination), a change in the rate the transferor charges the operator, or variable payments become fixed in nature and these changes would significantly affect the value of the liability. A liability for installment payments should not be remeasured solely for a change in an index or a rate used to determine variable payments.

Right-to-use Asset

A Right-to-use Asset should be measured in relation to a PPP as the sum of assets such as the value of payments made at or before commencement to the transferor, initial value of liability for installment payments, the initial value of the purchased or constructed underlying PPP asset, the initial value of improvements made to the underlying PPP asset, and any ancillary charges to place the right-to-use asset into service. The right-to-use asset should be systematically and rationally amortized over the shorter of the PPP term or the useful life of the underlying PPP asset. The operator will recognize an outflow of resources (amortization expense). If any of the related liabilities of the PPP are remeasured, the right-to-use asset should be adjusted by the same amount (if the adjustment reduces the asset to zero, the remainder will be recognized as a gain/loss).

The operator government should apply all other accounting and financial reporting requirements relevant to a right-to-use asset, including amortization and impairment unless the operator will return the asset to its original condition.

New Asset Purchased or Constructed By Operator and Does Not Meet the Definition of an SCA

GASB 94 requires the operator government to recognize and measure the following:

1. An Underlying PPP Asset, at historical cost plus any ancillary costs to place the asset into service, until ownership of the underlying PPP asset is transferred to the transferor, if applicable.
2. A Liability for the Underlying PPP Asset when it is placed into service that will be transferred to the transferor, if applicable, at the estimated carrying value of the asset on the expected date of transfer to the transferor. The liability should be remeasured if there is a change in the PPP term (modification or termination) that significantly affects the carrying value of the PPP asset.
3. A Liability for Installment Payments, if any at the commencement of the PPP term.
4. A Deferred Outflow of Resources for the underlying PPP asset to be transferred to the transferor, if any, equal to the estimated carrying value of the underlying PPP asset as of the date of transfer of ownership. The deferred outflow of resources should be systematically and rationally recognized as outflows of resources over the PPP term. If the liability for the underlying PPP asset is remeasured, the deferred outflow of resources should be adjusted by the same amount (if the adjustment reduces the deferred outflow of resources to zero, the remainder will be recognized as an expense/revenue).

The operator government should apply all other accounting and financial reporting requirements relevant to a PPP asset, including depreciation and impairment unless the operator will return the asset to its original condition.

Governmental Fund Statements

1. If a PPP is expected to be paid from general government resources, the PPP should be accounted for as an expenditure and other financing source in the period the PPP is initially recognized.
2. Subsequent governmental fund PPP payments should be accounted for consistent with the principles for debt service payments of long-term debt (split for principal and interest expense).

Disclosures Required of Government Operators

1. GASB 94 requires the operator government to disclose the following about its PPP activities (which may be grouped for purposes of disclosure):
   - A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which any variable payments not included in the measurement of the liability for installment payments are determined
   - The nature and amounts of assets, liabilities, and deferred outflows of resources related to PPPs that are recognized in the financial statements
   - The discount rate or rates applied to the measurement of the liability for installment payments, if any
   - Principal and interest requirements to maturity, presented separately, for the liability for installment payments for each of the five subsequent fiscal years and in five-year increments thereafter

- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the liability for installment payments
- The nature and extent of rights granted to the operator or retained by the transferor under PPP arrangements
- The components of any loss associated with an impairment (the impairment loss and any related change in the liability)

2. For PPPs that include provisions for guarantees and commitments, the operator government is required to disclose the guarantees and commitments, including identification, duration, and significant contract terms, for each period in which the guarantees or commitments exist.

IV. ACCOUNTING AND FINANCIAL REPORTING FOR APAS

Availability Payment Arrangements Definition

GASB 94 also provides guidance for Availability Payment Arrangements (APAs) which are defined as an arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The payments by the government are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand. Availability for use may be based on specified criteria such as the physical condition of the asset, construction milestones, or the achievement of certain availability measures. In an APA, a government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services.

1. An APA may contain multiple components. For example, a government enters into an agreement with an operator to design, construct, finance, operate, and maintain a public toll road in exchange for fixed payments design to compensate the operator for the design, construction, financing, operation, and maintenance of the toll road and variable payments to the operator are based on whether measures related to availability have been met.
2. Components of an APA that are related to the design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the government by the end of the contract should be reported as a financed purchase by the government of the underlying nonfinancial asset.
3. Components of an APA that are related to providing services for the operation or maintenance of a nonfinancial asset should be accounted for as outflows of resources (for example, expense) by the government in the period to which the payments relate.
4. When APA contracts have multiple components such as multiple underlying assets or components which provide operating or maintenance services, the government should treat each component as a separate APA.
5. If a government enters into an APA that contains both (a) a component related to the design, construction, or financing of a nonfinancial asset and (b) a component related to providing services for the operation or maintenance of a nonfinancial asset, the government should account for those components as separate contracts unless the contract does not include prices for individual components, or if any of those prices appear to be unreasonable. In such instance, the government should use professional judgment to determine its best estimate for allocating the contract price to those components, maximizing

the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single contract.

V. OTHER SIGNIFICANT PROVISIONS

PPP Remeasurement

When exercising an existing option, such as an option to extend or terminate the PPP arrangement, the change in the contract may be subject to the guidance for remeasurement. A transferor and an operator government should reassess the PPP term only if one or more of the following occur: a. The transferor or the operator government elects to exercise an option even though it was previously determined that it was reasonably certain that the transferor or the operator government would not exercise that option, or b. The transferor or the operator government elects not to exercise an option even though it was previously determined that it was reasonably certain that the transferor or the operator government would exercise that option.

PPP Amendments

Amendments modify the provisions of the PPP arrangement. An amendment should be considered a PPP modification unless the operator's right to use the underlying PPP asset decreases, in which case the amendment should be considered a partial or full PPP termination. Examples of amendments to PPP arrangements include:
- changing the price of the arrangement,
- lengthening or shortening the PPP term,
- adding or removing an underlying PPP asset, and
- changing the index or rate upon which variable payments depend.

PPP Modifications

A transferor and an operator should account for an amendment during the reporting period resulting in a modification to a PPP arrangement as a separate PPP (that is, separate from the most recent PPP arrangement before the modification) if both of the following conditions are present:
- The PPP modification gives the operator an additional underlying PPP asset by adding one or more underlying PPP assets that were not included in the original PPP arrangement.
- The increase in PPP payments for the additional underlying PPP asset does not appear to be unreasonable based on:
  - the terms of the amended PPP arrangement, and
  - professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

PPP Terminations

A transferor and an operator should account for an amendment during the reporting period resulting in a decrease in the operator's right to use the underlying PPP asset (for example, the PPP term is shortened, or the number of underlying assets is reduced) as a partial or full PPP termination.

GASB Literature and Resources (Ctrl + Click to follow link)

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- GASB 99, Omnibus 2022