

Appendix A – GASB Standard 94: PPP and APA Arrangement Examples

I. APA Arrangement:

Details of arrangement:

The State DOT (SDOT) has entered into an arrangement with a corporation (ABC Engineering) to design, build and finance construction of a bridge. Once the bridge is placed into service, ABC Engineering will operate the bridge for 20 years. At the beginning of the arrangement, SDOT pays ABC Engineering \$10 million, and when the bridge is placed into service, SDOT will pay the ABC Engineering another \$10 million. The SDOT will also pay ABC Engineering \$1 million for each of the 20 years during the term of the agreement, which also represents payment for the design and construction of the bridge. (For the sake of this example the present value or PV of the future \$1 million payments for 20 years is \$25 million when bridge is placed into service). The SDOT will also compensate ABC Engineering \$150,000 each month (or \$1.8 million each year) to operate the bridge, collect the tolls on behalf of SDOT and remit the tolls to SDOT as collected.

GASB 94 requires that an APA arrangement that has multiple components account for each component separately. There are 2 components in this example: 1) SDOT has contracted with ABC Engineering to design, build and finance the bridge; and 2) SDOT is compensating the corporation for the operation of the bridge.

- The design, construction, or financing of the bridge is one component and should be reported as a financed purchase of an asset by the State.
 - a) The \$10 million upfront payment will be reported as an asset by SDOT at the beginning of the agreement when the payment is received.
 - b) When the bridge is placed into service SDOT will record an infrastructure asset for the bridge in the amount of \$45 million on the State's financial statements (the sum of: \$10 million upfront payment, \$10 million for when the asset is placed into service, and \$25 million, the PV of the future \$1 million payments for 20 years. The SDOT will also apply existing capital asset policies to the bridge (e.g., depreciation).
 - c) The SDOT will also recognize a \$25 million liability when the bridge is placed into service for the PV of the future payments of \$1 million for 20 years.
- The \$150,000 per month (or \$1.8 million per year) for the operation of the bridge represents compensation for a service. The SDOT will recognize the payments for operating the bridge as outflows of resources (or expensed) in the period the payments are made.

II. Public-Public and Public Private Partnerships (PPPs)

A. Service Concession Arrangement (SCA)

Details of arrangement:

1. The State DOT - SDOT (Transferor) has entered into an arrangement for 50 years with the Tollway Authority (operator - another governmental entity), to operate an existing toll road currently being reported as infrastructure on the SDOT's enterprise fund financial statements with a carrying value of \$1 billion.
2. The SDOT receives an up-front payment of \$2 billion from the Tollway Authority (not a component unit of the State) for the right to operate the toll road and collect and retain the revenues for 50 years.

Comment: One of the requirements of an SCA is that the operator is compensated from a third party. In this case, the toll road patrons are third parties, so the SCA requirement that an operator is paid from third parties is met.

3. The SDOT has established the toll amounts to be charged by vehicle type and section of the road. SDOT also has retained the right to increase or decrease the tolls during the 50-year period.

Comment: Because the Transferor (SDOT) has the right to determine the type of services (toll road access), the amount of the fees (tolls charged) and who the fees apply to (type of vehicle), the SCA requirement that the Transferor retain control of the type of services provided, the fees charged and who will receive the services is met. If this level of control is removed, it would no longer qualify as an SCA but is a PPP under the broader definition of GASB 94.

4. At the end of the 50 years, the SDOT will take over the operation of the toll road and be responsible for collecting and reporting the toll revenues.

Comment: In an SCA, the Transferor has a significant residual interest in the underlying PPP asset, in this case, the toll road. This SCA requirement is met.

At the commencement of the agreement:

Transferor – SDOT:

- a) Continues to report the toll road (the underlying PPP/SCA asset) on their financial statements and apply applicable capital asset accounting policies (e.g., depreciation and asset impairment policies).

- b) Records a \$2 billion Deferred Inflow of Resources for the upfront payment received from the Tollway Authority for the Right to Operate the toll road and collect and retain toll revenues for 50 years.
- c) If using straight-line method, SDOT will amortize the Deferred Inflow of Resources in the amount of \$40 million each year (\$2 billion/50 years) and recognize \$40 million in revenue inflows each year.

Operator – Tollway Authority:

- a) Records a \$2 billion Intangible Right to Use or Operate Asset, which is the upfront payment made to SDOT the Transferor.

Note: If the agreement also required future installment payments, the PV of the future payments would also be included in the value of the Intangible Asset for the Right to Use or Operate, and a Liability for the PV of the future payments would also be recorded.

- b) The Tollway Authority will amortize the Intangible Right to Use or Operate Asset, over the term of the agreement or the life of the asset, whichever is shorter. In this example we will use the 50-year term of the agreement. If the Tollway Authority uses a straight-line method, they will amortize \$40 million (\$2 billion/50 years) and recognize \$40 million in outflows (amortization expense) each year.

B. Public-Private Partnership (not an SCA)

Details of arrangement:

1. A University (transferor) has entered into an agreement with a third-party developer (ABC Co.), the operator, to design, build and then operate and receive revenues from a student facility for 20 years upon completion of the facility. ABC Co. will transfer ownership of the student facility to the University at the end of the 20-year term.
2. ABC Co. completes the facility on December 1, 2020 – total costs equal \$65 million. ABC Co. estimates that the carrying value will be \$32.5 million on December 1, 2040 (date ABC Co. will transfer ownership of the student facility to the University).
3. ABC Co. (not the University) will be responsible for setting policy related to what students receive certain services and what rates to charge during the 20-year period they operate the facility.

Comment: If the University retained the right to establish fees and determine who is provided what services, this arrangement would qualify as an SCA.

Transferor (University):

1. When the underlying PPP asset is placed into service, the University should record a Receivable for the Right to Receive the Facility at the end of the 20-year term in the amount of \$32.5 million (ABC Co., the operator's, estimated carrying value on the date of transfer).

Comment: A receivable for the "Right to Receive the Facility" is recorded for the estimated carrying value of the operator on the expected date of transfer because the asset is not an existing asset of the University (transferor) and because the arrangement does not qualify as an SCA. If the arrangement met the definition of an SCA, or if the underlying PPP asset was an existing asset of the University, the University would report the underlying PPP asset instead of a receivable on their financial statements.

2. The University will also record a Deferred Inflow in the amount of the Receivable for \$32.5 million and amortize it using a systematic and rational method over the 20 year-term. If they use the straight-line method, the University will amortize \$1.625 million (\$32.5 million/20 years) and recognize revenue inflows of \$1.625 million each year.

Operator (ABC Co.) as a private entity is not subject to GASB 94

Variation of Example B: If the operator is another governmental entity instead of a private entity (e.g., County Construction), the operator will report the following:

1. As the student facility is being built, County Construction will record construction in progress for their construction costs. When the student facility is placed into service, County Construction will record the \$65 million student facility asset on their own financial statements and apply any applicable capital asset policies to the student facility (e.g., depreciation and capital asset impairments policies).
2. County Construction will also record a Liability when the asset is placed into service in the amount of \$32.5 million (County Construction's estimated carrying value for the student facility on the date of transfer) for their obligation to transfer the facility to the University.
3. County construction will also record a Deferred Outflow of Resources in the amount of the liability to transfer the student facility after 20 years. The deferred outflow should be amortized in a systematic and rational manner of the 20-year period.