Office of Statewide Reporting and Accounting Policy
State of Louisiana
Division of Administration

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GOVERNOR

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COMMISSIONER OF ADMINISTRATION

May 4, 2023

MEMORANDUM OSRAP 23-08

TO: Fiscal Officers

FROM: Brian Fleming, CPA
Director, Office of Statewide Reporting and Accounting Policy

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Link to full statement: GASB 94

Effective Date: State's fiscal year ended **June 30, 2023**.

Summary

Arrangements between governments and private entities or other governments have become more prevalent. Those arrangements, often referred to as public-private or public-public partnerships (collectively, P3s), generally result in the government transferring the obligation to provide certain public services to an external entity. Service concession arrangements (SCAs) are a type of P3. Availability payment arrangements (APAs) also have been used in practice to procure governmental services.

The objectives of GASB Statement No. 94 are to improve the comparability of financial statements among governments that enter into P3s and APAs and to enhance the understandability, reliability, relevance, and consistency of information about P3s and APAs. The Statement applies recognition, measurement, and remeasurement requirements for P3s that are similar to the requirements for lease transactions in GASB Statement No. 87, *Leases*. GASB Statement No. 94 supersedes GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.

The financial statement impact of GASB Statement No. 94 varies depending on the type of agreement (i.e., P3, SCA, or APA), the role of the government (i.e., transferor or operator), and the nature of the underlying asset(s). This memo is intended to summarize accounting and financial reporting requirements of GASB Statement No. 94 and assist agencies in identifying arrangements subject to the new standard.

State agencies must review current agreements/arrangements that may meet the GASB Statement No. 94 criteria for P3s, SCAs, and APAs. OSRAP has set a threshold to report these agreements if the carrying value of the underlying assets exceeds $3,000,000 **or** the sum of the fixed and fixed-in-substance cash flows remaining over the term of the agreement exceeds $3,000,000[1]. Cash flows from periods prior to the transition date of July 1, 2022, may be excluded from the total cash flows.

The attached GASB 94 Inventory Analysis workbook must be completed for each agreement/arrangement that may meet the criteria and returned to Chantel Brooks (Chantel.Brooks@la.gov) no later than **May 31, 2023**. The GASB 94 Inventory Analysis workbook contains three worksheets. The first and second worksheets are a preliminary analysis for agreements/arrangements where the State (i.e., your agency) is the transferor or operator, respectively. The third worksheet is an inventory of the agreements that are likely to be P3s, SCAs, or APAs based on the results of the preliminary analysis. For agencies that do not have any arrangements subject to GASB Statement No. 94, please indicate on each worksheet that your agency has none to report.

If the GASB 94 Inventory Analysis workbook indicates that your agency may have an arrangement that meets the GASB Statement No. 94 criteria, OSRAP will follow up for additional information, including a copy of the agreement(s), to assist you with making a final determination.

Key Terminology

Public-Private or Public-Public Partnership (P3) – a **P3** is 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 asset (i.e., the **underlying P3 asset**), for a period of time in an exchange or exchange-like transaction.

Operator – The **operator** in a **P3** may be a governmental entity or nongovernmental entity. References to an **operator** within the Statement include both types of entities, except for the **operator** accounting and financial reporting provisions, which only apply to governmental entities.

Underlying P3 asset – includes (a) existing assets of a transferor, (b) assets that are newly purchased or constructed by the **operator**, or (c) existing assets of a transferor that are to be improved by the **operator**.

Service Concession Arrangement (SCA) – an **SCA** is a **P3** arrangement between a transferor and an **operator** in which all of the following criteria are met:

1. The transferor conveys to the **operator** the right and related obligation to provide public services through the use and operation of an **underlying P3 asset** in exchange for significant

[1] State entities that have their own stand-alone financial statements should consider their own materiality and reduce the $3,000,000 threshold, if necessary, when preparing their stand-alone financial statements. If it is necessary that a state entity use a lower threshold for their separate stand-alone financial statements, they may use that same lower threshold for their AFR.

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 P3 asset** at the end of the arrangement.

Availability Payment Arrangement (APA) – an **APA** is 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.

Example Arrangements

Common types of assets or services that may be subject to P3 or APA arrangements include ***but are not limited to***:

- Toll roads
- Bridges
- Tunnels
- Jails/prisons
- Schools
- Hospitals
- Office buildings
- Sports facilities
- Recreational facilities
- Museums
- Parking structures
- Airport terminals
- Water and sewer treatment plants
- Public transit
- Broadband networks
- Student services at colleges/universities, such as housing

P3 Example

The State Department of Transportation (SDOT), enters into an arrangement with the Parish Bridge Authority (PBA) in which the PBA (the operator) has agreed to design and build the Newer Bridge and then operate the bridge for 30 years by collecting and retaining toll revenue. In return for transfer of ownership of the Newer Bridge at the end of the 30 years, SDOT (the transferor) conveys to the PBA the right to operate the bridge and to set, collect, and retain toll revenues. The bridge's expected useful life is 40 years. The PBA is not a component unit in the State's financial reporting entity.

This is a public-public partnership (P3) that does ***not*** meet the definition of a service concession arrangement (SCA).

SCA Example

The State Department of Transportation (SDOT), enters into an arrangement with the Local Tunnel Authority (LTA) in which the LTA (the operator) has agreed to design and build a tunnel for SDOT (the transferor) and then operate the tunnel for 30 years. During the term of the arrangement, the LTA is entitled to collect and retain tolls generated by the tunnel, but SDOT sets the toll rates. All other SCA criteria are met. The LTA is not a component unit in the State's financial reporting entity.

This is a public-public partnership (P3) that also qualifies as a service concession arrangement (SCA).

APA Example

The State Department of Transportation (SDOT) enters into an arrangement with a corporation to design, build, and finance the construction of the Loop Tollway. The corporation (the operator) will collect all tolls for the tollway for 30 years and remit them to SDOT (the transferor). SDOT will remit to the corporation $10 million at the start of the project, $10 million on the date the tollway is placed into service, and $2 million annually for each of the 30 years the corporation will operate the tollway as compensation for designing, building, and financing the tollway, beginning in the period in which it is placed into service. SDOT will also remit $100,000 per month during the 30 years to compensate the corporation for collecting the tolls.

This is an availability payment arrangement (APA) with two components, (1) a component related to the design, construction, and financing of the tollway and (2) a component related to the operation of the tollway.

Accounting and Financial Reporting for P3s

A government that has a P3 that meets the definition of a lease should apply the guidance in GASB Statement No. 87, as amended, if all of the following criteria are met:

1. Existing assets of the transferor are the only underlying P3 assets.
2. Improvements are not required to be made by the operator to those existing assets.
3. The P3 does not meet the definition of an SCA.

P3s that do not meet the above criteria should apply the guidance in GASB Statement No. 94.

P3 Term

The P3 term is the period during which an operator has a noncancellable right to use an underlying P3 asset in addition to the following:

- Periods covered by an option to extend if it is reasonably certain that the transferor or operator will exercise that option.
- Periods covered by an option to terminate if it is reasonably certain that the transferor or operator will not exercise that option.

Periods for which both the operator and the transferor have an option to terminate the P3 without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the P3 term.

Fiscal funding or cancellation clauses allowing the operator to cancel a P3 only affect the P3 term if it is reasonably certain that the clause will be exercised.

Transferor - Recognition and Measurement

Underlying P3 asset is:	**Transferor should recognize:**
Existing asset of transferor	• At commencement, continue to recognize the underlying P3 asset, measured at its carrying value • At commencement, a receivable for any installment payments to be received • At commencement, a deferred inflow of resources • An asset for improvements, if any, made by the operator to the existing underlying P3 asset and a deferred inflow of resources when the improvements are placed into service; improvements should be measured at acquisition value
New asset purchased or constructed by operator (P3 meets definition of SCA)	• An asset for the purchased or constructed underlying P3 asset when placed into service, measured at acquisition value • At commencement, a receivable for any installment payments to be received • At commencement, a deferred inflow of resources
New asset purchased or constructed by operator (P3 does ***not*** meet definition of SCA)	• A receivable for the purchased or constructed underlying P3 asset when the underlying P3 asset is placed into service, measured at operator's estimated carrying value as of the expected date of transfer in ownership • A receivable for any installment payments to be received when the underlying P3 asset is placed into service • A deferred inflow of resources when the underlying P3 asset is placed into service

Transferor - Initial Direct Costs

Any initial direct costs incurred by the transferor should be reported as outflows of resources (i.e., expenses) for the period. This includes costs to originate a P3 that result directly from and are essential to the P3 that would not have been incurred had the P3 transaction not occurred. It also includes costs directly related to specified activities performed by the transferor for the P3, such as evaluating the prospective operator's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating P3 terms; preparing and processing P3 documents; and closing the transaction.

Transferor - Depreciation and Impairment

A transferor should apply all accounting and financial reporting requirements relevant to an underlying P3 asset and improvements to an underlying P3 asset, including depreciation and impairment. However, if the P3 arrangement requires the operator to return the underlying P3 asset in its original condition, the transferor should not depreciate the asset during the P3 term. These provisions do not apply when the underlying P3 asset is a new asset purchased or constructed by the operator and the P3 does ***not*** meet the definition of an SCA since the underlying P3 asset is not recognized by the transferor.

Transferor - Receivable for Installment Payments

A transferor initially should measure the receivable for installment payments at the present value of P3 payments expected to be received during the P3 term, reduced by any provision for estimated uncollectible amounts. Measurement of the receivable for installment payments should include the following, as applicable:

1. Fixed payments
2. Variable payments that depend on an index or rate (e.g., CPI), initially measured using the index or rate as of the commencement of the P3 term
3. Variable payments that are fixed in substance
4. Residual value guarantee payments that are fixed in substance

The future payments to be received should be discounted using the interest rate the transferor charges the operator, which may be the interest rate implicit in the P3. If the interest rate is not readily determinable, the government's estimated incremental borrowing rate should be used. The transferor should calculate the amortization of the discount on the receivable for installment payments and report that amount as an inflow of resources (e.g., interest revenue) for the period. Any P3 payments received should be allocated first to the accrued interest receivable and then to the receivable for installment payments.

Variable payments based on future performance of the operator, usage of the underlying P3 asset, or variable factors other than an index or a rate, should not be included in the measurement of the receivable for installment payments. Rather, those variable payments should be recognized as inflows of resources (e.g., revenue) in the period to which the payments relate.

Transferor - Deferred Inflow of Resources

A transferor initially should measure the deferred inflow of resources related to a P3 as the sum of the following, as applicable, when the related assets are recognized:

1. The amount of the initial measurement of the receivable for installment payments;
2. P3 payments received from the operator at or before the commencement of the P3 term;
3. The amount of the initial measurement for the underlying P3 asset (when the P3 meets the definition of an SCA and the operator purchased or constructed a new asset);

4. The amount of the initial measurement for improvements to the underlying P3 asset;
5. The amount of the initial measurement of the receivable for the underlying P3 asset (when the P3 does ***not*** meet the definition of an SCA and the operator purchased or constructed a new asset).

A transferor subsequently should recognize the deferred inflow of resources as revenue in a systematic and rational manner over the P3 term.

Transferor – Disclosure Requirements

A transferor should disclose the following about its P3 activities (which may be grouped for the purposes of disclosure):

1. A general description of its P3 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.
2. The nature and amounts of assets and deferred inflows of resources related to P3s that are recognized in the financial statements.
3. The discount rates or rates applied to the measurement of the receivable for installment payments, if any.
4. 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.
5. The nature and extent of rights retained by the transferor or granted to the operator under the P3 arrangements.
6. If applicable, for each period in which P3 arrangements include guarantees or commitments, disclosures should be made including the identification, duration, and significant contract terms of such guarantees or commitments.

Operator - Recognition and Measurement

Underlying P3 asset is:	**Operator should recognize:**
Existing asset of transferor	• At commencement, a liability for installment payments to be made, if any • At commencement, an intangible right-to-use asset
New asset purchased or constructed by operator (P3 meets definition of SCA)	• At commencement, a liability for installment payments to be made, if any • At commencement, an intangible right-to-use asset
New asset purchased or constructed by operator (P3 does ***not*** meet definition of SCA)	• The underlying P3 asset until ownership is transferred to the transferor, if applicable • A liability for the underlying P3 asset to be transferred, if applicable, when the underlying P3 asset is placed into service, measured at

	operator's estimated carrying value as of the expected date of transfer in ownership • A liability for installment payments to be made, if any, when the underlying P3 asset is placed into service • A deferred outflow of resources for the underlying P3 asset to be transferred, if any, when the underlying P3 asset is placed into service, measured at operator's estimated carrying value as of the expected date of transfer in ownership; subsequently recognize as an expense in a systematic and rational manner over the remaining P3 term

Operator - Depreciation and Impairment

If the underlying P3 asset is purchased or constructed by the operator and the P3 does ***not*** meet the definition of an SCA, the operator should apply all accounting and financial reporting requirements relevant to the underlying P3 asset, including depreciation and impairment.

Operator - Liability for Installment Payments

An operator initially should measure the liability for installment payments at the present value of P3 payments expected to be made during the P3 term. Measurement of the liability for installment payments should include the following, as applicable:

1. Fixed payments
2. Variable payments that depend on an index or rate (e.g., CPI), initially measured using the index or rate as of the commencement of the P3 term
3. Variable payments that are fixed in substance
4. Residual value guarantee payments that are reasonably certain to be paid by the operator
5. Payments for penalties for terminating the P3, if the P3 term reflects the operator exercising either an option to terminate the P3 or a fiscal funding or cancellation clause
6. Any other payments to the transferor associated with the P3 that are reasonably certain of being required

The future payments to be made should be discounted using the interest rate the transferor charges the operator, which may be the interest rate implicit in the P3. If the interest rate is not readily determinable, the government's estimated incremental borrowing rate should be used. The operator should calculate the amortization of the discount on the liability for installment payments and report that amount as an outflow of resources (e.g., interest expense) for the period. Any P3 payments made should be allocated first to the accrued interest liability and then to the liability for installment payments.

Variable payments based on future performance of the operator, usage of the underlying P3 asset, or variable factors other than an index or a rate, should not be included in the measurement of the liability for installment payments. Rather, those variable payments should be recognized as outflows of resources (e.g., expense) in the period in which the obligation for the payments is incurred.

Operator – Right-to-Use Asset

An operator initially should measure the right-to-use asset as the sum of the following, as applicable, when the underlying P3 asset is placed into service:

1. The amount of the initial measurement of the liability for installment payments;
2. P3 payments made to the transferor at or before the commencement of the P3 term;
3. The cost of the purchased or constructed underlying P3 asset, if the P3 meets the definition of an SCA;
4. The cost of improvements to an existing underlying P3 asset;
5. Initial direct costs that are ancillary charges necessary to place the right-to-use asset into service.

A right-to-use asset should be amortized in a systematic and rational manner over the shorter of the P3 term or the useful life of the underlying P3 asset. The amortization of the right-to-use asset should be reported as an outflow of resources (e.g., amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

Operator – Disclosure Requirements

An operator should disclose the following about its P3 activities (which may be grouped for purposes of disclosure):

1. A general description of its P3 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.
2. The nature and amounts of assets, liabilities, and deferred outflows of resources related to P3s that are recognized in the financial statements.
3. The discount rate or rates applied to the measurement of the liability for installment payments, if any.
4. 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.
5. 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.
6. The nature and extent of rights granted to the operator or retained by the transferor under P3 arrangements.
7. The components of any loss associated with an impairment.

Modifications and Terminations

Amendments to a P3 should be accounted for as a separate P3 arrangement if the modification provides the operator with one or more additional underlying assets and the increase in P3 payments for the additional underlying asset(s) does not appear unreasonable. Otherwise, the government should account for modification by remeasurement of the applicable amounts recognized in the financial statements.

An amendment resulting in a decrease in the operator's right to use the underlying P3 asset is considered a full or partial termination. When this occurs, the transferor and operator should reduce the applicable carrying values with a gain or loss recognized for the difference.

Further detail on modifications, terminations, and remeasurement is provided throughout GASB Statement No. 94.

Accounting and Financial Reporting for APAs

An APA may contain multiple components. 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* of the underlying nonfinancial asset. Components of an APA that are related to providing services for the operation or maintenance of a nonfinancial asset should be accounted for as *expenses* by the government in the period to which the payments relate. If a government enters into an APA that contains both types of components, the government should account for each component as a separate contract. Similarly, if an APA involves multiple underlying nonfinancial assets and those assets have different terms or are in different major classes of asset, the government should account for each nonfinancial asset as a separate component.

To allocate the contract price to the different components, first, any prices for individual components that are included in the contract should be used as long as the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information, such as readily available observable stand-alone prices. Stand-alone prices are those that would be paid or received if the same or similar nonfinancial assets or operation/maintenance services were acquired individually. If prices are not included in the contract or appear unreasonable, professional judgment should be used to determine best estimates. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, the government should account for those components as a single contract. If multiple components are accounted for as a single contract, the accounting for that APA should be based on the primary component of the contract.

Additional Resources

Links to GASB literature and resources are provided below, including lease guidance since P3 reporting uses a similar framework as leases.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- GASB Statement No. 87, *Leases*
- GASB Implementation Guide No. 2019-3, *Leases*
- GASB Implementation Guide No. 2020-1, *Implementation Guidance Update-2020*
- GASB Implementation Guide No. 2021-1, *Implementation Guidance Update-2021*

Any questions concerning this bulletin can be directed to Chantel Brooks at (225) 342-2209 or Angie Thibodeaux at (225) 342-1092 or via email at Chantel.Brooks@la.gov or Angelina.Thibodeaux@la.gov.

Attachment