WHAT YOU NEED TO KNOW ABOUT GASB STATEMENT NO.94,

PUBLIC-PRIVATE AND PUBLIC-PUBLIC PARTNERSHIPS AND AVAILABILITY PAYMENT ARRANGEMENTS

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What: Beginning in 2023, governments must implement GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* if they have those transactions.

In a public-private or public-public partnership (P3), a government (the *transferor*) contracts with an *operator* (which may be another state or local government or a nongovernmental entity) to provide public services for a length of time using:

1. an existing capital asset of the government—such as a building or highway—that the operator improves, or
2. a new capital asset that the operator buys or builds, in an exchange or exchange-like transaction.

A service concession arrangement (SCA) is a type of P3 with the unique features that the operator is compensated by fees from third parties—typically the recipients of the service provided with the capital asset, such as drivers on a toll road—and the government can dictate the services the operator provides, to whom those services are provided, and the amount the operator can charge.

In an availability payment arrangement (APA), the operator designs, builds, finances, maintains, and/or operates a capital asset. Instead of being compensated by fees paid by third parties, the operator is paid by the government based solely on the asset's availability for use to provide service.

Why: The project that led to this Statement was prompted by two principal issues. First, stakeholders had brought APAs to the GASB's attention, which are similar to SCAs but do not meet all of the criteria to be accounted for under Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*—in particular, the method of compensating the operator. Second, because of their unique features that require additional guidance, SCAs and other types of P3s were excluded from Statement No. 87, *Leases*. Statement 94 provides that additional guidance.

Who: Any state or local governmental entity that engages in SCAs, other P3s, or APAs.

When:

- Fiscal years ending June 30, 2023, and all reporting periods thereafter (September 30, 2023; December 31, 2023; March 31, 2024)
- SCAs and other P3s should initially be recognized and measured using the facts and circumstances as of the beginning of the year of implementation (i.e., July 1 or October 1, 2022; January 1 or April 1, 2023)

Summary of the Requirements:

In general, P3s should be accounted for like leases under Statement 87. Transferor accounting is similar to that for lessors, and operator accounting is similar to that for lessees. The specific financial statement elements that should be reported depend on whether the P3 is an SCA and whether it involves an improved existing capital asset or a new capital asset.

P3 with an existing asset

A transferor should:

- Continue to report its capital asset, in addition to the improvements, with all applicable standards, including annual depreciation.
- Measure the improvements at acquisition value when placed into service.
- If installment payments are to be made by the operator, recognize a receivable and deferred inflow of resources equal to their present value; the deferred inflow also should include the amount of the improvements and payments received at or before the start of the P3 term.
- In subsequent years, recognize revenue from amortizing the deferred inflow and the discount on the receivable for installment payments.

An operator that is a state or local government should:

- Recognize a liability for the present value of installment payments.
- Report a right-to-use asset in the amount of liability, payments made at or before the start of the P3 term, the cost of the improvements, and ancillary charges to put the right-to-use asset into service.
- Subsequently, recognize expenses from amortizing the deferred outflow, the right-to-use asset, and the discount on the liability.

SCAs

A transferor should recognize the following:

- The new capital asset, measured at acquisition value when placed into service, applying relevant standards such as annual depreciation
- If installment payments are to be made by the operator, a receivable and deferred inflow of resources equal to their present value
- In subsequent years, revenue from amortizing the deferred inflow and the discount on the receivable for installment payments.

Summary of the Requirements: (continued)

An operator should recognize:

- A liability for the present value of installment payments.
- A right-to-use asset in the amount of liability, payments made at or before the start of the P3 term, the cost of the new asset, and ancillary charges to put the right-to-use asset into service.
- Subsequently, expenses from amortizing the deferred outflow, the right-to-use asset, and the discount on the liability.

Other P3s with a new asset

A transferor should recognize:

- Receivables and deferred inflows for the new capital asset, measured at acquisition value when placed into service, and the present value of the installment payments, if any.
- In subsequent years, revenue from amortizing the deferred inflow and the discount on the receivable for installment payments.

An operator should recognize:

- Liabilities for the new capital asset and the present value of installment payments.
- The new asset, applying the relevant capital asset standards, including annual depreciation, until ownership is transferred to the transferor.
- A deferred outflow for the new asset.
- Subsequently, expenses from amortizing the deferred outflows and the discount on the liability.

APAs

APAs have one or both of two components: one related to designing, building, and/or financing a capital asset and another related to providing services by operating and/or maintaining the capital asset. The government should account for the former component as a financed capital asset purchase. The latter should be accounted for like a typical service contract, reporting expenses of the period.

What to Do to Get Ready for Statement 100

The first question is, "Do we have these transactions?" If you already report an SCA, the accounting under Statement 94 will be very similar. If you have one or more APAs, you may be aware of it because you have considered whether Statement 60 applies to it. The types of transactions you should review to determine if they meet the definitions of a P3, SCA, or APA include, but are not limited to:

- Arrangements in which another party is engaged both to make improvements to one of your existing capital assets and to use the capital asset to provide public services.
- Arrangements in which another party is engaged both to purchase or construct a new capital asset that will become your government's and to use the capital asset to provide public services.
- Arrangements in which another party is engaged both to purchase or construct a new capital asset that will become your government's and to use the capital asset to provide public services while collecting fees directly from the service recipients or another third party.
- Arrangements in which another party is engaged to design, construct, and/or finance a new capital asset that will become your government's and/or to use the capital asset to provide public services, in return for compensation from your government based on the asset's availability for use.

If you identify transactions that are P3s, SCAs, or APA, you will want to examine them for provisions like those you may have found in your leases when implementing Statement 87:

- Unconditional rights to extend or terminate the arrangement without the other party's permission.
- Whether those options to extend or terminate are reasonably certain to be exercised.
- Periods containing options that require approval of both parties to extend.
- Periods containing options that allow either party to terminate unilaterally.
- Fiscal funding or cancellation clauses and whether they are reasonably certain to be exercised.
- Modifications that change the term or the payment amounts.
- Variable payments based on an index or rate.
- Variable payments that are fixed in substance.
- Variable payments based on future performance or utilization.

If you need assistance with getting ready for Statement 94, contact your CRI advisor and we'll help you adjust to the changes.