Implementing GASB 94 and 96: PPP and SBITAs

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Agenda for Today

With You Today

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Learning Objectives

Discuss	Identify	Review
Discuss the key concepts and provisions of GASB 94 and 96	Identify implementation challenges associated with accounting and financial reporting for GASB 94 and 96	Review best practices to address these challenges

Overview

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

- Primary objective of the statement is to improve financial reporting by addressing issues related to public-private and public-public partnerships (henceforth referred to as PPPs)
- PPPs are common and becoming even more prevalent
- Examples of PPPs include toll roads, parking garages, convention centers, dormitories, utility plants and more
- Diversity in practice and issues identified post GASB 87 implementation – 2 factors among many driving GASB to issue GASB 94
- GASB 94 based on standards established in GASB 87, *Leases*

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

- PPPs comprise a wide variety of arrangements between a government and another party engaged in providing services to a government's constituents
- A PPP is an arrangement in which the government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset (the underlying PPP asset) for a period of time in an exchange or exchange-like transaction
  - Some PPP are service concession arrangements (henceforth referred to as SCA), other PPP meet the definition of a lease
- Availability Payment Arrangements (henceforth referred to as APAs) are arrangements where a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction

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

PPP (also an SCA)

An SCA is a PPP arrangement between a transferor and an operator in which all of the following criteria are met:

1. Transferor conveys to operator the right and related obligation to provide public services of an underlying PPP asset in exchange for significant consideration
2. Operator collects and is compensated by fees from third parties
3. Transferor determines or has ability to modify or approve services the operator is required to provide, to whom the operator is required to provide services, and prices or rates that can be charged
4. Transferor entitled to significant residual interest in the service utility of the PPP asset at the end of the arrangement

PPP (also meet definition of a lease)

A government that has a PPP that meets the definition of a lease should apply the requirements of GASB 87, as amended, if:

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

Transferor Accounting – GASB 94

- A **transferor** should recognize the following for a PPP that **does not meet the definition of an SCA:**
  - A **receivable** for (1) installment payments in relation to the PPP, measured at present value, and (2) any new underlying PPP asset purchased or constructed to be received when the asset is placed into service at carrying value
  - An **asset** for improvements, if any, made by the operator to an existing PPP asset when the asset is placed into service
  - A **deferred inflow of resources** equal to (1) receivable balances, (2) payments received from the operator at or before commencement of the PPP term, and (3) Asset improvements made by the operator when the improvements are placed into service
- A transferor in a PPP **meeting the definition of an SCA:**
  - Should recognize the same as for a PPP not meeting the definition of an SCA **except** an asset should be recognized instead of a receivable for any underlying PPP asset purchased or constructed when placed into service

Transferor Accounting, cont. – GASB 94

- Underlying PPP assets that are an existing asset of the transferor should continue to be measured at carrying value
- New assets purchased or constructed by the operator as well as improvements made by the operator should be measured at acquisition value when placed into service
- PPP assets should be depreciated unless the arrangement requires the assets to be returned in their original condition
- In subsequent periods:
  - The receivable discount should be amortized and reported as an inflow of resources (e.g., interest revenue)
  - The deferred inflows of resources balance should be recognized as an inflow of resources (e.g., revenue) in a systematic and rational manner over the PPP term

Operator Accounting – GASB 94

- An **operator** should recognize the following for a PPP:
  - A **liability** for installment payments to be made, equal to the present value of PPP payments expected to be made during the PPP term
  - A **right-to-use asset**, equal to (1) the initial measurement of the installment payments liability, (2) payments made to the transferor at or before commencement of the PPP term, (3) costs of improvements to an existing PPP asset, (4) cost of the purchased or constructed PPP asset (if PPP is considered an SCA), and (5) initial direct costs necessary to place the right-to-use asset into service
- In subsequent periods, the right-to-use asset should be amortized in a systematic and rational manner over the shorter of the PPP term or useful life of the asset
- The discount on the liability should be amortized in subsequent periods and reported as an outflow of resources (e.g., interest expense) for the period

Availability Payment Arrangements – GASB 94

- APAs are arrangements where a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction
- APAs include payments made by transferors to operators
  - In a PPP, payments flow from operator to transferor
- APA payments based on asset's availability for use
- APAs related to the design, construction, and financing of a nonfinancial asset in which ownership of the asset transfers are financed purchases
- If an APA involves multiple underlying nonfinancial assets and those assets have different terms, a government should account for each nonfinancial asset as a separate component
- A government should also account for each nonfinancial asset as a separate component if the assets are in different major asset classes

GASB 96, *Subscription-Based Information Technology Arrangements (SBITAs)*

- Primary objective of the statement is to provide guidance on accounting and financial reporting for subscription-based information technology arrangements for government end users
- SBITAs are common and becoming even more prevalent
- Examples of SBITAs include ERP software, cloud computing arrangements, software subscriptions
- Diversity in practice concerning SBITAs, causing comparability in financial reporting issues
- GASB 96 based on standards established in GASB 87, *Leases*

Types of SBITAs – GASB 96

SHORT TERM SBITAS

- Maximum possible term at commencement of the subscription term of 12 months or less
- No recognition of subscription liability or subscription asset required
- Recognize an asset if subscription payments are made in advance or a liability if subscription payments are to be made subsequent to the reporting period.
- Recognize short-term subscription payments as outflows of resources (for example, expense) based on the payment provisions of the SBITA contract

ALL OTHER

- Subscription liability and subscription asset are recognized at the commencement of the subscription term

Scope Exceptions – GASB 96

- Contracts that solely provide IT support services
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in GASB 87, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset
- Contracts that meet the definition of a public-private or public-public partnership in GASB 94
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to GASB 51, *Accounting and Financial Reporting for Intangible Assets*, as amended

Relationship Between Leases and SBITAs – GASB 96

- All SBITAs meet the definition of a lease
- Accounting depends on what the underlying asset is:

UNDERLYING ASSET	FOLLOW
IT software alone	GASBS No. 96
Tangible capital assets alone	GASBS No. 87
IT software in combination with tangible capital assets	Software component is insignificant compared to cost of underlying tangible capital asset – GASBS No. 87; otherwise, GASBS No. 96

- Due to different effective dates, the exclusion of SBITAs from GASBS No. 87 would not be effective until GASBS No. 96 is adopted
  - Requires tangible capital assets associated with a SBITA to be recognized under GASBS No. 87 and then restated when GASBS No. 96 is adopted

Outlays Other Than Subscription Payments, Including Implementation Costs - GASB 96

STAGES:

Activities associated with a SBITA (other than a government making subscription payments to the SBITA vendor for the right to use the underlying IT assets) should be grouped into one of 3 stages:

- Preliminary Project Stage
- Initial Implementation Stage
- Operation and Additional Implementation Stage

DATA CONVERSION:

- Should be considered an activity of the initial implementation stage only to the extent that it is determined to be necessary to place the subscription asset into service
- Otherwise, should be considered an activity of the operation and additional implementation stage

MODULES:

If a SBITA has more than one module and the modules are implemented at different times:

- Initial implementation stage considered completed when subscription asset is placed into service for first module or first set of interdependent modules
- For remaining modules, all additional implementation activities considered subsequent implementation outlays

Accounting for Outlays Incurred – GASB 96

Other than subscription payments for the right to use the underlying IT assets, outlays incurred prior to completing all the following should be expensed as incurred:

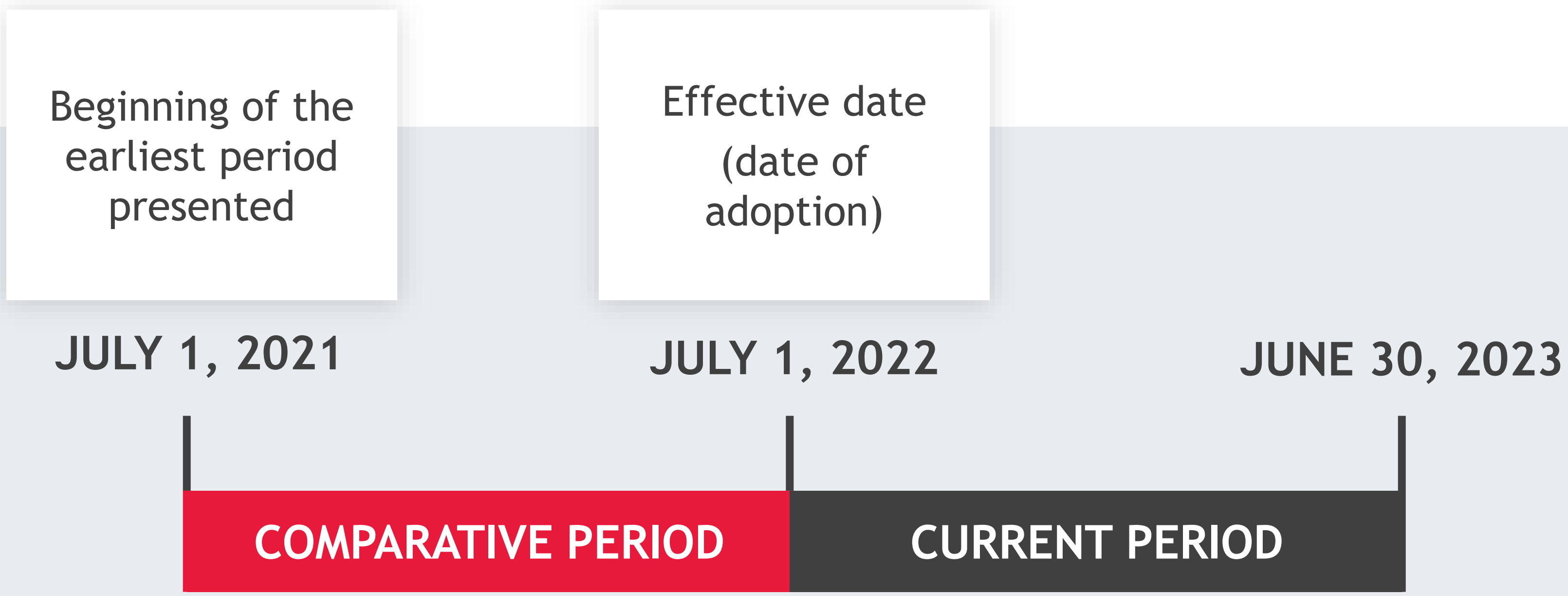
- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the subscription asset
- Demonstration of the technical or technological feasibility such that the subscription asset will provide its expected service capacity
- Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract

ACCOUNTING TREATMENT (BY STAGE)

STAGE	ACCOUNTING FOR OUTLAYS
Preliminary Project Stage	Expensed as incurred
Initial Implementation Stage	Generally, should be capitalized as part of the subscription asset (if no subscription asset is recognized – expensed as incurred)
Operation and additional implementation stage	Expensed as incurred, except for those outlays that increase functionality or efficiency of the subscription asset, which should be capitalized

Key Concepts and Considerations

Implementation Dates



OTHER CONSIDERATIONS

- Use facts and circumstances that existed at the beginning of the earliest period restated, NOT the commencement date of the PPP or SBITA
- Applied retrospectively to the earliest period restated

Discount Rates

Installment payments (subscription payments) should be measured at the present value of payments expected to be received or made during the PPP (subscription) term

The discount rate used should be the interest rate the transferor charges the operator (SBITA vendor charges the government)

If the rate is not stated in the agreement, the operator (government) should use its estimated incremental borrowing rate

The discount rate should not be updated during the term except when:

The arrangement is remeasured and there is a change in the PPP (subscription) term and/or a change in the interest rate the transferor charges the operator (SBITA vendor charges the government) and the changes are expected to be significant

Amendments: Modifications and Terminations

- **Amendments** may include change the price, length of the term, adding or removing assets, or changing the index of rate used for variable payments
  - Amendments are considered either a modification or termination
- **Modification** = an amendment in which the operator's (government's) right to use the PPP (subscription) asset does not decrease
  - A modification is accounted for as a separate PPP (SBITA) if the modification gives the operator (government) additional PPP (subscription) assets and any increase in payments does not appear unreasonable
  - A modification not resulting in a separate PPP (SBITA) should be accounted for by remeasuring the installment receivable or payable (subscription liability)
- **Termination** = an amendment decreasing the operator's (government's) right to use the PPP (subscription) asset
  - A government should account for terminations by reducing the carrying values of the asset and liability and recognizing a gain or loss for the difference
  - For a transferor under GASB 94, a reduction should be made to the carrying values of the deferred inflows of resources

Multiple Components

- PPP (SBITA) arrangements may contain multiple components
- PPP (SBITA) and non-PPP (SBITA) components should be accounted for as separate arrangements unless:
  - The contract does not include prices for individual components or
  - If prices are included, the prices appear to be unreasonable
- Multi-asset PPP (SBITAs) with different terms should be accounted for as separate components unless not practicable
- In cases where multiple components are accounted for as a single PPP (SBITA) use the primary component's terms to account for the PPP (SBITA)
- When allocating prices to components, first use any prices for individual components included in the contract, if reasonable
  - If unreasonable, use professional judgment to allocate prices to components

Implementation Challenges and Best Practices

Keys for Successful Implementation

- Involve stakeholders outside of accounting/finance
- Communicate early and often
- Evaluate internal processes, procedures and controls
- Relevant changes should be made timely
- Consider necessary changes to financial statement preparation
- Evaluate impact on debt covenants and key operating measures
- Incorporate lessons from implementation of GASB 87

Implementation Challenges and Best Practices – GASB 94

Criteria to consider when evaluating whether an arrangement meets requirements of a PPP:

- Whether the arrangement conveys control of the right to operate or use a nonfinancial asset for a period of time
- Whether the underlying transaction meets the definition of an exchange or exchange-like transaction
- Whether the arrangement meets the existing definition of a SCA under GASB 60
- Whether the arrangement meets the definition of a lease under GASB 87

Implementation Challenges and Best Practices – GASB 96

Criteria to consider when evaluating whether an arrangement meets requirements of a SBITA:

- Whether the arrangement conveys control of the right to use another party's (a SBITA vendor's) IT software for a period of time
- Whether the underlying transaction meets the definition of an exchange or exchange-like transaction
- Whether the arrangement includes tangible capital assets and the significance of such assets compared to the software component
- Whether the arrangement meets the definition of a PPP under GASB 94

Key Steps to Perform

Compile	Compile a listing of all potential PPPs and SBITAs
Gather	Gather all contracts and agreements
Identify	Identify key parties
Document	Document terms and key assumptions
Determine	Determine applicable discount rate
Consult	Consult legal counsel for ambiguous terms

Items to Communication to Those Charged with Governance

- Users of the financial statements are interested in PPPs and SBITAs
- Improved financial reporting
- Better accounting = better tools for decision making
- Required under GAAP
- Successful implementation requires time and commitment
- One-time investment with lasting implications
- Implementation of GASB 87 laid foundation

Case Studies

Case Study #1

A County enters an arrangement with the District Toll Agency (DTA), to operate the Veteran's Memorial Highway (VMH). VMH is a 20 mile 4-lane highway owned by the County and reported on the County's financial statements as a capital asset with a carrying value of $300 million.

The arrangement stipulates the County is to receive an up-front payment of $75 million from DTA, as well as installment payments of $25 million over the next 25 years. In return for the payments, DTA receives the right to operate VMH and to receive toll revenues for the next 25 years.

QUESTION

Does the arrangement meet the definition of a PPP under GASB 94? If so, which entity is the transferor, and which is the operator?

Case Study #1

QUESTION
Does the arrangement meet the definition of a PPP under GASB 94? If so, which entity is the transferor, and which is the operator?

ANSWER

Yes.

- The County = Transferor
- DTA = Operator

Case Study #2

A University enters into an agreement with Dorms-R-US, Inc. (DRS), a state agency, to design and construct a residence hall on the University's campus. Upon completion, DRS will operate the residence hall for 30 years.

During the term of the arrangement, DRS is entitled to collect and retain room and board fees paid by students residing within the hall. The University retains authority to determine the room and board rates charged by DRS. The cost to DRS to construct the residence hall is $50 million. The acquisition value of the residence hall when placed into service is $60 million. The University retains ownership of the residence hall at the conclusion of the agreement.

QUESTIONS

1. Does this arrangement meet the definition of a service concession arrangement?
2. What should the University recognize the value of the residence hall as when placed into service?
3. What should DRS recognize related to the residence hall constructed?

Case Study #2

QUESTIONS

1. Does this arrangement meet the definition of a service concession arrangement?
2. What should the University recognize the value of the residence hall as when placed into service?
3. What should DRS recognize related to the residence hall constructed?

ANSWERS

1. Yes.
2. The University should recognize a $60 million capital asset (acquisition value of residence hall when placed into service) and a $60 million deferred inflows of resources.
3. DRS should recognize an intangible right-to-use asset of $50 million (cost to design and construct the residence hall).

Case Study #3

A regional hospital authority (Hospital) signed an agreement with a vendor for the right to use a cloud-based ERP system for a 72-month term beginning April 1, 2023. The Hospital made an initial payment of $350,000 and is required by the agreement to make quarterly payments $175,000 over the remainder of the term. Beginning in month 36, the quarterly payment amount will increase by a rate equal to CPI for the trailing 12 months. Beginning in month 48, the Hospital and vendor both have the option to terminate the agreement and can do so without permission of the other party.

QUESTIONS

1. Does this arrangement meet the definition of a SBITA?
2. What periods (months) should be included in the subscription term?
3. What payments should the Hospital include when measuring the subscription liability?

Case Study #3

QUESTIONS

1. Does this arrangement meet the definition of a SBITA?
2. What periods (months) should be included in the subscription term?
3. What payments should the Hospital include when measuring the subscription liability?

ANSWERS

1. Yes.
2. Months 1-48.
3. Initial payment of $350K and quarterly payments of $175K through month 48.

Case Study #4

A City entered in an agreement with a vendor for the right to use the vendor's dispatch software. The original agreement was for 36 months and included 14 licenses. In month 24, the agreement was amended to increase the number of licenses to 21, and to increase the monthly subscription payments by 50%.

QUESTIONS

1. Does the amendment meet the definition of a modification or a termination?
2. How should the City account for this change to the agreement?
3. Is it necessary for the City to remeasure the subscription liability?

Case Study #4

QUESTIONS

1. Does the amendment meet the definition of a modification or a termination?
2. How should the City account for this change to the agreement?
3. Is it necessary for the City to remeasure the subscription liability?

ANSWERS

1. Modification
2. Separate SBITA
3. No, since the modification is reported as a separate SBITA

Resources and Questions

BDO Nonprofit Standard Newsletter

Topics covered:

- Implementation of GASB 87
- GASB 99
- GASB 100
- GASB 101
- Implementation of GASB 94
- Implementation of GASB 96
- GASB Implementation Guide No. 2023-1

Implementation of GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

By Sam Thompson, CPA

Governments are required to adopt the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASBS 94 or Statement) for fiscal years ending in 2023. GASBS 94 addresses accounting and financial reporting issues related to public-private and public-public partnerships arrangements (PPPs) as well as availability payment arrangements (APAs). While the Statement incorporates concepts from existing standards, the Statement has the potential to significantly alter a government's financial statements when implemented.

BACKGROUND

In a PPP, a government enters into a partnership agreement with an external entity to transfer the obligation to provide certain public services to the external entity, with the intention that the arrangement will benefit the government and its stakeholders financially or by improving the quality of service, or both. Examples of common PPPs include toll roads and bridges, convention centers and arenas, parking garages, college or university residence halls, and central utility plants. The external entity can be either a private entity or a public entity (i.e., another government).

ACCOUNTING RECOGNITION

GASBS 94 defines a PPP as 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 (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Certain PPPs may meet the requirements of a service concession arrangement (SCA). An SCA is a PPP arrangement that meets all of the following four criteria:

1. The transferor conveys to the operator the right and obligation to provide public services through use and operation of the PPP asset in exchange for significant consideration.
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 provides and the prices or rates charged.
4. The transferor is entitled to significant residual interest in the service utility of the PPP asset at the end of the arrangement.

In other instances, a PPP may meet the definition of a lease in accordance with GASBS 87. A PPP meeting the definition of a lease must apply the requirements of GASBS 87 if (1) the existing assets of the transferor are the only underlying PPP assets; (2) improvements are not required to be made by the operator to the existing PPP assets; and (3) the PPP does not meet the definition of an SCA.

Transferor Accounting

A transferor should recognize the following for a PPP that *does not meet the definition of an SCA*:

- A receivable for installment payments in relation to the PPP
- A receivable for any new underlying PPP asset purchased or constructed to be received when the asset is placed into service
- An asset for improvements, if any, made by the operator to an existing PPP asset, when the asset is placed into service
- A deferred inflow of resources equal to:
  - any receivable for installment payments or a new PPP asset to be received when the asset is placed into service
  - payments received from the operator at or before commencement of the PPP term
  - asset improvements made by the operator when the improvements are placed into service

Questions?

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