

FISCAL POLICIES MANUAL

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

Preface

State agencies may enter into public-private and public-public partnerships (PPPs or P3s) to provide services to a government's constituents. Availability payment arrangements (APAs) also have been used in practice to procure governmental services. Accounting for such arrangements requires adherence to materiality thresholds, splitting out principal and interest payments, and the periodic recording of depreciation, if applicable.

Governmental Accounting Standards Board (GASB) Statement 94 establishes definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. Under this Statement, a transferor is required to recognize the underlying PPP asset, a receivable for installment payments, and a deferred inflow of resources related to the PPP. An operator is required to recognize a liability for installment payments, an intangible right-to-use asset, and a deferred outflow of resources for the underlying PPP asset to be transferred to the transferor, if any. GASBS 94 supersedes Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.

Definitions

Availability Payment Arrangement (APA) – 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.

Future PPP Payments - The payments the government is obligated to make to the operator.

Initial Direct Costs - Costs incurred by the transferor that are:

1. incurred to originate a PPP that result directly from and are essential to that PPP and would not have been incurred had the PPP transaction not occurred
2. directly related to specified activities performed by the transferor for that PPP, such as evaluating the prospective operators' financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating PPP terms; preparing and processing PPP documents; and closing the transaction

Lease – GASB Statement 87 defines a lease as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

Present Value – Current worth of future sums of money.

Public-Private & Public-Public Partnerships (PPP or P3) – GASB Statement 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.

PPP Term – The period during which an operator has a noncancelable right to use an underlying PPP asset (known as the noncancelable period), plus the following periods, if applicable:

1. 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.
2. Periods covered by an operator's option to terminate the PPP if it is reasonably certain, based on all relevant factors, that the operator will not exercise that option.
3. 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.
4. 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.

Residual Value Guarantee Payments – A guaranteed amount that the transferor assures the operator will recover at the end of the PPP term. Residual value guarantees are often inserted into contracts to minimize risk.

Service Concession Arrangements (SCA) – Some PPPs are SCAs. An SCA is a PPP 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 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.

Policy

All arrangements that meet the following criteria shall be reported as a PPP.

1. A contract that conveys control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset)
2. For a period of time
3. In an exchange or exchange-like transaction
4. Have a present value of \$100,000 or more over the term, including any options to renew.

An SCA is a PPP 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 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

A government that has a PPP that meets the definition of a lease should apply the accounting and financial reporting guidance in Statement 87, as amended, if (a) existing assets of the transferor are the only underlying PPP assets, (b) improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement, and (c) the PPP does not meet the definition of an SCA.

Identifying Interest rate:

The future PPP payments should be discounted using the interest rate the transferor charges the operator, which may be the interest rate implicit in the PPP arrangement. If the interest rate cannot be readily determined use the US Treasury yield rate plus 1% spread as the incremental borrowing rate. Use the rate in effect when the agreement was entered into. A good resource for historical yield rates is the Treasury.gov website. The STO, Department of Finance, and SCO agreed this would be a good estimate to use the US Treasury yield rate because it most closely matches Idaho's borrowing rate based on its credit rating.

APA Accounting

1. Components of an APA related to designing, constructing, or financing a nonfinancial asset in which ownership transfers at the end of the contract should be accounted for as a financed purchase
2. Components of an APA related to operating or maintaining a nonfinancial asset should be reported as an outflow of resources

Administrative Procedures

GASB Statement 94 requires the following reporting of PPPs:

Transferor Accounting

1. If an underlying PPP asset is an existing asset of the transferor, at the commencement of the PPP term, the transferor should continue to recognize the underlying PPP asset and the following:
 - A receivable for installment payments, if any, to be received in relation to the PPP
 - A deferred inflow of resources
 - An asset for improvements, if any, made by the operator to an existing underlying PPP asset, and a deferred inflow of resources, when the improvements are placed into service
2. If an underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA, the transferor should recognize:
 - An asset when the underlying PPP asset is placed into service
 - At the commencement of the PPP term, a receivable for installments payments, if any, and a deferred inflow of resources
3. If 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, when the underlying PPP asset is placed into service the transferor should recognize:
 - A receivable for the underlying PPP asset
 - A receivable for installment payments, if any, and a deferred inflow of resources

Any initial direct costs incurred by the transferor should be expensed for the period.

Receivable for installment payments and deferred inflow of resources

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

- Fixed payments
- 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 PPP term
- Variable payments that are fixed in substance

- Residual value guarantee payments that are fixed in substance

Variable payments, including payments related to revenue sharing arrangements, based on future performance of the operator, usage of the underlying PPP asset, or variable factors other than an index or rate, should not be included in the measurement of the receivable. The future PPP 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 PPP.

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

- The amount of the initial measurement of the receivable for installment payments
- PPP payments received from the operator at or before the commencement of the PPP term, if applicable
- The amount of the initial measurement for the underlying PPP asset
- The amount of the initial measurement for improvements to the underlying PPP asset
- The amount of the initial measurement of the receivable for the underlying PPP asset

A transferor subsequently should recognize the deferred inflow of resources as revenue in a systematic and rational manner over the PPP term. Please contact SCO if you believe your agency has a P3 contract that is reportable. Any payments received should first be allocated to STARS revenue subobject 2515/Luma interest income account 460000.

Operator Accounting

1. If an underlying PPP asset is an existing asset of a transferor or is a new asset purchased or constructed by an operator and the PPP meets the definition of an SCA, at the commencement of the PPP term, an operator should recognize:
 - A liability for installment payments, if any, to be made in relation to the PPP
 - A right-to-use asset
2. If an underlying PPP asset is a new asset purchased or constructed by an operator and the PPP does not meet the definition of an SCA, the operator should recognize the underlying PPP asset until ownership of the asset is transferred to the transferor, if applicable. When the underlying PPP asset is placed into service, the operator should recognize:
 - A liability for the underlying PPP asset to be transferred to the transferor, if applicable
 - A liability for installment payments, if any
 - A deferred inflow of resources for the underlying PPP asset to be transferred to the transferor

Liability for installment payments

An operator initially should measure the liability for installment payments at the present value of PPP payments expected to be made during the PPP term. Measurement of the liability should include the following, if required by a PPP:

- Fixed payments

- Variable payments based on an index or rate (such as CPI), initially measured using the index or rate as of the commencement of the PPP term
- Variable payments that are fixed in substance
- Amounts that are reasonably certain of being required to be paid by the operator under residual value guarantees
- Payments for penalties for terminating the PPP, if the PPP term reflects the operator exercising (1) an option to terminate the PPP or (2) a fiscal funding or cancellation clause
- Any other payments to the transferor associated with the PPP that are reasonably certain of being required based on an assessment of all relevant factors.

Variable payments, including payments related to revenue sharing arrangements, based on future performance of the operator, usage of the underlying PPP asset or variable factors other than an index or a rate, should not be included in the measurement of the liability for installment payments. Please contact SCO if you believe your agency has a P3 contract that is reportable. Any payments received should first be allocated to the STARS expenditure subobject 5962/Luma interest expense account 676000.

All records shall be retained for audit purposes, and agencies shall disclose PPP activities and provide all required information when completing the annual Closing Package for the State Controller's Office.