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Governmental Accounting Standards Board Proposes Updated P3 Guidelines: Ballard Spahr

The Governmental Accounting Standards Board (GASB) has released proposed expanded guidelines for public-private partnerships and public-public partnerships (both referred to as P3s) that recognize increased use of P3s in more varieties of agreements. GASB's existing guidance for these types of arrangements was issued in November 2010 and many newer P3 arrangements fall outside the limited scope of the 2010 guidance. The guidelines, which GASB released on June 13, also provide guidance for availability payment arrangements (APAs).

The primary objective of the guidelines is to improve financial reporting by addressing issues related to P3s and APAs. The guidelines provide uniform guidance on accounting and financial reporting for transactions that meet the expanded definitions of P3s and APAs set forth below.

P3s

P3s are defined in the guidelines as arrangements in which a government transferor contracts with a governmental or non-governmental operator to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction.

This definition expands on the 2010 guidance that covered service concession agreements, which are a type of P3 arrangement under which a private partner operates and maintains the infrastructure asset, collects revenues, and handles the debt payments.

APAs

APAs were not defined in the 2010 guidance, but are defined in the guidelines as arrangements in which 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. Government payments are based entirely on the asset's availability rather than revenues or similar measures of demand.

Guidelines

In an effort to have more transparency and consistency, to allow users to understand the scale and importance of a government's P3, and to allow users to evaluate a government's future obligations and assets resulting from P3s, the guidelines require that governments report assets and liabilities related to P3s consistently and disclose important information about P3 transactions. The guidelines describe what the transferor and the operator should recognize on their respective financial statements for different P3 arrangements. For example, the guidelines provide that if a P3 asset is an existing asset of the transferor, at the commencement of the P3 term, the transferor should continue to report the underlying P3 asset and should continue to apply other accounting and reporting requirements, including depreciation. If, however, the P3 arrangement requires the operator to return the underlying P3 asset in its original or enhanced condition, the transferor should not depreciate the asset during the P3 term.

The guidelines provide more relevant and reliable information for financial statement users, including: (1) a general description of P3 arrangements; (2) the nature and amount of assets and deferred inflows and outflows of resources related to P3s that are recognized in the financial statement; (3) the discount rate(s) applied to the measurement of receivables for installment payments; (4) the amount of inflow and outflow of resources recognized in the reporting period for certain payments; and (5) the nature and extent of rights retained by the transferor or granted to the operator.

The guidelines provide guidance on how transferors should measure receivables, including fixed payments, variable payments, and amounts to be received under residual value guarantees, as well as how to measure deferred inflows. They also provide guidance on how operators should measure the liability for installment payments and right-to-use assets.

The guidelines would be effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

Comments are due on September 13, 2019.

by the Public Finance Group

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