



September 16, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 30-1
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and are pleased to offer our comments. Overall, we appreciate that the project expands on the scope of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, to address all public-private and public-public partnerships (PPPs). We support the application of Statement No. 87, *Leases* to PPPs that meet the definition of a lease but not the definition of a service concession arrangement (SCA).

The ED provides accounting and reporting for 3 scenarios of PPPs that we will refer to throughout this letter:

1. The asset is an existing asset of the transferor.
2. A newly purchased or constructed asset by the operator, or existing asset of the transferor that has been improved by the operator, and the PPP is an SCA.
3. A newly purchased or constructed asset by the operator and the PPP is not an SCA.

The economic substance of these transactions are similar and the Board has proposed similar accounting treatment, which we support. The majority of our discussions on this ED focused on the third scenario as we identified an anomaly with net position over the term of the agreement. The "Significant Comments" section below provides further discussion of this issue, along with our other significant comments on the ED. The "Other Comments" section describes our less significant comments.

Significant Comments

Newly Purchased or Constructed Asset by the Operator and the PPP is Not an SCA Board Should Revise Requirement to Avoid Artificially Inflating Net Position

In the first and second scenarios of PPPs the transferor records a *PPP asset* at the outset of the transaction, and in the third scenario, the transferor records a *receivable for the underlying PPP asset*. In all 3 scenarios, the transferor records a deferred inflow of resources and recognizes as revenue in a systematic and rational manner over the PPP term (per paragraphs 27 and 28 of the ED). In the first and second scenarios, the systematic recognition of revenue will result in an increase to the net position category of net investment in capital assets. In the third scenario, the systematic recognition of revenue will result in an increase to unrestricted net position since a capital asset will not exist until time of transfer.

At the time of the PPP asset transfer, the transferor in the third scenario records the PPP asset as a capital asset and eliminates the *receivable for the underlying PPP asset* which will result in a net position reclassification from unrestricted net position to net investment in capital assets. We believe this accounting is misleading over the term of the arrangement as it artificially inflates unrestricted net position only to reclassify it upon transfer (an event which is known from the outset). To prevent this anomaly in net position, we recommend the Board include a requirement in the Statement that a *receivable for the underlying PPP asset, net of related deferred inflows*, be included in the calculation of net investment in capital assets.

Revenue Recognition: Reconsider Timing and Classification

If the Board does not agree with our suggestion to classify a receivable for the underlying PPP asset, net of related deferred inflows, as part of net investment in capital assets, we suggest the Board change the recognition of the deferred inflow of resources as an inflow of resources at the time of transfer rather than over the PPP term. Making this change would alleviate the inflation of unrestricted net position over the term of the PPP arrangement.

If the Board does not agree with either of these recommendations, we suggest the Board include discussion in the Basis for Conclusions to describe what the transferor is earning over the PPP term and the rationale for increasing unrestricted net position until the time of transfer.

Remeasurement of Receivable for Underlying PPP Asset Should be Expanded

Paragraph 16a of the ED states,

The receivable for the underlying PPP asset should be remeasured if there is a change in the PPP term and the change is expected to significantly affect the operator's estimated carrying value of the underlying PPP asset as of the future date of the transfer of ownership.

We believe the limitation to remeasure the receivable only when there is a change in the PPP term is too strict. Given the varied nature of these arrangements with regard to asset type, length of term, and condition of the asset, there could be other situations that could merit remeasurement or impairment of the asset. For example, if the underlying asset is a bridge and during the term of the arrangement the bridge collapses, the value of the asset has clearly changed. Whether and how that will impact the operator's estimated carrying value of the underlying PPP asset as of the future date of transfer is dependent upon the contract's stipulations of asset condition at transfer or terms to modify/terminate the agreement. We believe that the Statement should allow for remeasurement of the receivable in response to other variables that may impact the operator's carrying value.

Further, we found the guidance in paragraphs 16, 56, and 58 contradictory. Paragraph 56 of the ED provides several examples of amendments could be considered a modification (for example, change of PPP term, adding or removing an asset, and change of price). Paragraph 58 of the ED addresses modifications (which could be any of the examples provided) and requires that a modification should result in remeasurement for the receivable for the underlying asset as discussed in paragraph 16a. However, paragraph 16a only provides for remeasurement when the term changes, just one of the examples given in paragraph 56. The guidance in paragraphs 16, 56, and 58 should be revised to clarify the Board's intent on when modifications should occur.

Availability Payment Arrangements (APAs) Definition Requires Revision

The nature and discussion of APAs needs to be clarified to promote consistent application as there are varying interpretations of what an APA is intended to encompass. We have several recommendations for APAs that are described in the following paragraphs.

Paragraph 7 of the ED defines an APA as,

"an arrangement in which a government compensates an operator for activities 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. 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 performance measures.”

We believe that the key differentiator of an APA is that it is a financing arrangement to construct an asset but that is not clear in the definition in paragraph 7. Due to that lack of clarity, we are concerned that multi-year vendor/contract arrangements could be interpreted as an APA when payments are made on installments based on completion (availability) of the asset (for example, construction of a road over a 3 year term where payments are made based on work completed). The notion that payments by the government based entirely on the asset’s availability for use should emphasize that APAs are a financed purchase of the underlying infrastructure or other nonfinancial asset as described on page iv (Summary) of the ED.

Additionally, the use of the word “or” as noted in red in the above excerpt has created confusion in the definition because it suggests that any one of these activities could result in an APA. Further, paragraphs 65-67 of the ED discuss APAs with multiple elements. We are unclear if an APA could solely focus on providing services for the operation or maintenance of an infrastructure or other nonfinancial asset as discussed in paragraph 67. Or, if the arrangement must first contain elements related to the design, construction, and financing of the asset. If we are correct in that the key differentiator of an APA is financing, we suggest the Board clarify the definition of an APA emphasize that element to be considered an APA and clarify paragraphs 65-67.

Further, the definition of an APA in paragraph 7 does not address ownership of the asset or transfer between the operator and the government, but instead references an exchange or exchange-like transaction. However, paragraph 66 of the ED specifically cites ownership and transfer in the description of an APA. If ownership and transfer are considered key components of an APA, we suggest that the Board expand the description of an APA in the Statement.

Finally, as APAs are a type of long-term financing arrangement, we believe that the components cited in paragraph 66 of the ED would meet the definition of debt for purposes of disclosures in GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. To enhance understanding and consistent application, we suggest the Board clarify in the Statement that these arrangements meet the definition of debt for purposes of disclosures.

Clarify Applicability of Guidance to the 3 Scenarios

We found navigating the ED to identify the appropriate accounting for the various scenarios of PPPs to be difficult. We suggest the Board add headings in the Statement to clarify the scenarios to which specific guidance applies or develop a matrix, decision tree, or table to guide readers through the appropriate accounting. We created a table to aid in our discussions which would be happy to share it if the staff or Board would find it helpful.

For example, paragraphs 14 and 31 address transferor and operator accounting for a PPP asset that is an existing asset of the transferor. It is not readily apparent if this guidance is intended for a PPP that meets the definition of an SCA, a non-SCA, or both. However, paragraphs 15 and 32 clearly address PPPs that meet the definition of an SCA and paragraphs 16 and 33 clearly address PPPs that are not SCAs.

Further, the organization of the information should be improved in the Statement. For example, the initial direct costs incurred by the transferor is addressed in paragraph 17 (applicable to all) but is positioned after the description of the 3 different scenarios of PPPs. Additionally, the guidance in paragraphs 14-16 and 31-33 make reference to guidance in other paragraphs of the ED to further explain the accounting. Thus, the reader has to piece together the various components for each scenario of PPP which is not ideal.

Other Comments

Clarify “Public Service”

Paragraph 5 of the ED defines arrangements within the scope of the Statement as, among other criteria, situations where the operator is providing public services. These arrangements come in different forms and could be provided to the general public or to groups like students or airport customers. We are concerned that “public service” could be interpreted differently leading to inconsistent application and recommend the Board provide clarification.

Further, the ED failed to bring forward the description of public service in GASB Statement No. 60 which is as follows: “these services relate to the primary function of the facility (for example, operating a city zoo) rather than ancillary services operated in conjunction with the facility (for example, operating the souvenir stand at a city zoo).” Paragraph B5 of the Basis for Conclusions of the ED cited the reason for not carrying forward that description was because whether the public service related to the primary function of the underlying PPP asset was a distinction that would not result in different accounting and financial reporting. We recommend the Statement clarify the meaning of “public service” to address the issue of primary vs. ancillary services and to promote consistent application.

Expand Notion of Underlying PPP Assets

Underlying PPP assets are defined in footnote 2 of the ED as assets that are newly constructed or improved upon by the operator. However, it is possible that a government transfers an existing asset to an operator that does not need improvements and, as defined, it would not be considered a PPP. We suggest the Board revise the definition of PPP assets to include any asset the government transfers control of the right to operate or use.

Underlying PPP assets include assets that are existing assets of a transferor or assets that are newly constructed or improved upon by the operator and reported by the transferor as an asset because either (a) the government has title to the asset or (b) the asset is a new asset purchased or constructed by the operator, or an existing asset of the transferor that has been improved by the operator. *[Emphasis added]*

Provide Rationale for Including Intangible Assets in the Scope

We noted that, there is no exclusion of intangible assets from the scope as the term “nonfinancial asset” encompasses intangible assets. However, GASB Statement No. 87 excludes most intangible assets from its scope. Given that the ED so closely aligns with GASB Statement No. 87, we suggest the Board address the expansion of the scope of PPPs to include intangible assets in the Basis for Conclusions.

Illustrations with more Intricate Contracts

We generally appreciate the illustrations included in GASB Statements as they help to demonstrate the application of various requirements. However, we found the illustrations in this ED to be very simplistic. The Board should include illustrations of more intricate contracts (e.g., multiple components, modifications, or terminations) to improve understanding of the financial accounting and reporting requirements of the Statement.

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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA’s State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Heather S. Acker
Chair
AICPA State and Local Government
Expert Panel



Mary M. Foelster
Director
AICPA Governmental Auditing and
Accounting

cc: State and Local Government Expert Panel
Angela Newell
Dan Noll