August 29, 2019

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
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Project No. 30-1

Dear Mr. Bean,

We appreciate the opportunity to respond to the Governmental Accounting Standards Board’s (Board) exposure draft (ED) on Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA).

In general, we agree with the objective of the proposed statement and using Statement 87 as a model for the financial reporting guidance. However, the proposed statement seems to be incomplete, and the arrangements the proposed statement covers are not well defined. Accordingly, we believe the Board should consider the following comments.

**Current financial resources measurement focus**

Like Statement 60, the ED provides guidance for only the economic resources measurement focus. Statement 60, paragraph 44, explained that the Board decided not to provide guidance in that statement for the current financial resources measurement focus because it was considering issues of recognition in financial statements prepared using the current financial resources measurement focus in its conceptual framework project on recognition and measurement attributes. No similar statement is included in the ED. Further, despite the ongoing conceptual framework project on recognition, the Board proposed guidance for the current financial resources measurement focus in the ED on subscription-based information technology arrangements (SBITA) issued in May 2019 that also used Statement 87 as a model for its financial reporting guidance. Accordingly, we suggest the Board include guidance for the current financial resources measurement focus in the final standard or explain in the basis for conclusion why such guidance was excluded.

**Existing asset of the transferor that the operator has improved**

The ED provides guidance for a PPP in which the underlying PPP asset is an existing asset of the transferor that the operator has improved if the PPP meets the definition of a service concession arrangement (SCA). However, the ED does not provide guidance for a similar underlying asset if the PPP is not an SCA except for paragraph 63d, which provides guidance for transferor reporting of termination of such a PPP. In addition, the types of PPPs listed in paragraph B12 do not include such a PPP. We suggest the Board include guidance throughout the final statement for arrangements in which the underlying PPP asset is an existing asset of the transferor that has been improved by the operator and the PPP does not meet the definition of an SCA.
PPP and APA definitions
The PPP and APA definitions in paragraphs 5 and 7 lack adequate criteria to distinguish between arrangements that are PPPs, APAs, leases, or service contracts. Also, based on the financial reporting prescribed in the ED, it appears that under a PPP, the transferor must own the underlying PPP asset at or before the expiration of the PPP term. However, that is not reflected in the definition. Further, the ED does not provide guidance for determining whether a contract conveys control of the right to operate or use the underlying PPP asset like guidance provided in Statement 87, paragraph 5, and proposed in SBITA ED, paragraph 7. We suggest the Board clarify the PPP and APA definitions to include more specific criteria, including how to determine whether a contract conveys control of the right to operate or use the underlying PPP asset, that will assist governments in determining what type of arrangement a contract is. Further, we request that the Board include a flow chart similar to Statement 60, Appendix C, that will aid in determining whether an agreement is a PPP that is a lease, a PPP that is an SCA, a PPP that is neither a lease nor an SCA, an APA, or a lease that is not a PPP.

In addition, footnote 2 uses the terms “transferor” or “operator” to identify the parties to the PPP except in (a) where it uses the term “government.” It appears “government” is referring to the transferor; however, that would make the sentence repetitive as both the first part and the second part of the sentence would include assets that are owned by the transferor and improved by the operator. Further, the footnote does not include assets that are owned by the transferor but not improved by the operator or assets that are not recorded by the transferor as an asset because the PPP is not an SCA and ownership does not transfer until after the asset is placed into operation. Also, the footnote indicates that assets the operator improved could be a new asset the operator purchased or constructed and that purchased assets are either newly constructed or improved upon by the operator, which is not consistent with the standard. The Board should modify the footnote to ensure it is clear and consistent with the standard.

Recognition point
Paragraphs 14-16 and 31-33 use 3 phrases to describe the recognition point for financial statement elements—commencement of the PPP term, placed into operation, and placed into service. Placed into operation and placed into service appear to mean the same thing because paragraph 33 indicates that the liability for the underlying PPP asset to be transferred to the transferor should be recognized when the underlying asset is placed into service and the related deferred outflow of resources should be recognized when the asset is placed into operation. If placed into service and placed into operation mean the same thing, we suggest the Board replace placed into service with placed into operation throughout the statement for consistency within the statement and with prior GASB statements.

Further, it is unclear whether the commencement of the PPP term would be different from when the underlying PPP asset is placed into operation. The last sentence of paragraph 33 requires the deferred outflow mentioned above to be amortized “over the remaining term of the PPP” which implies that the PPP term began prior to the asset being placed into operation. However, question 4.12 in the implementation guide 2019-3 concludes that, for leases, the lease term commences when the lessee gains physical possession of the asset or attains access to use the underlying asset. This conclusion is based on wording in Statement 87, paragraph 12, regarding the lease term that is identical to ED, paragraph 10, related to the PPP term, and Statement 87, paragraph 5, for which there is not a comparable paragraph in the ED, as noted above. However, if the criteria for determining whether a contract conveys control of the right to use an underlying asset is the same for a PPP as a lease, it is unclear how the point in time when the operator attains access to use the underlying asset would be different from when that building is placed into operation. Accordingly, we suggest the Board clarify the meaning of the recognition points used in the standard and the differences between them.
Transferor recognition and measurement

Paragraph 15—We suggest the Board include as the last sentence the following sentence, similar to paragraph 14: However, if the PPP arrangement requires the operator to return the underlying PPP asset in its original or enhanced condition, the transferor should not depreciate the asset during the PPP term.

Paragraph 15d—This paragraph requires the deferred inflow of resources to be recognized at the commencement of the PPP term; however, the deferred inflow includes amounts to offset the assets recognized under paragraphs 15a and 15b that are not recognized until the asset is placed into operation. Accordingly, we suggest the Board clarify that the portion of the deferred inflow measured in accordance with paragraphs 27a and 27b should be recognized at the commencement of the PPP term, and the portion of the deferred inflow measured in accordance with paragraph 27c should be recognized when the underlying PPP asset is placed into operation.

Paragraph 16b—The recognition point for the receivable for installment payments under this paragraph is when the underlying PPP asset is placed into service. This is inconsistent with the receivable for installment payments under paragraphs 14b and 15c that are recognized at the commencement of the PPP term. We suggest the Board use a consistent recognition point for the receivable for installment payments for all PPP types.

If the Board changes the recognition point for the receivable for installment payments under paragraph 16b to the commencement of the PPP term, the Board should also clarify that the portion of the deferred inflow measured in accordance with paragraphs 27a and 27b should be recognized at the commencement of the PPP term, and the portion of the deferred inflow measured in accordance with paragraph 27d should be recognized when the underlying PPP asset is placed into service.

If the Board does not change the recognition point for the receivable for installment payments under paragraph 16b to the commencement of the PPP term, we suggest the Board clarify that the portion of the deferred inflow recognized under paragraph 16c and measured in accordance with paragraph 27b should include PPP payments received from the operator at or before the underlying PPP asset is placed into service rather than the commencement of the PPP term. We suggest the Board make a similar change to paragraph 63b as well.

Governmental operator recognition and measurement

Paragraph 33, generally—The third to last sentence begins “If ownership of the underlying PPP asset is to be transferred to the transferor after the underlying PPP asset is placed into operation.” This implies that the underlying PPP asset could be transferred to the transferor at or before the asset is placed into operation. However, the ED does not provide reporting guidance for such a situation. If the underlying PPP asset could be transferred to the transferor at or before the asset is placed into operation, we suggest the Board include appropriate reporting guidance for such a situation in this paragraph for the governmental operator and in paragraph 16 for the transferor. If the underlying PPP asset would always be transferred to the transferor after the asset is placed into operation, we suggest the Board eliminate the beginning of the third to last sentence.

Paragraph 33, first sentence—This sentence ends with “if applicable.” We suggest the Board clarify when the governmental operator would not recognize the underlying PPP asset before ownership of the underlying PPP asset is transferred to the transferor.

Paragraph 33a, first sentence—It appears the “if applicable” at the end of this sentence may be included because the underlying PPP asset could be transferred to the transferor at or before the asset is placed into
operation. If so, we suggest the Board add similar wording to paragraph 16a. However, if the underlying PPP asset would always be transferred to the transferor after the asset is placed into operation, we suggest the Board eliminate this wording here.

**Paragraph 33b**—The recognition point for the liability for installment payments under this paragraph is when the underlying PPP asset is placed into service. This is inconsistent with the liability for installment payments under paragraphs 31b and 32b that are recognized at the commencement of the PPP term. We suggest the Board use a consistent recognition point for the liability for installment payments for all PPP types.

Further, paragraphs 31 and 32 require the governmental operator to recognize a right-to-use asset to offset the liability for installment payments. However, paragraph 33 does not include a similar requirement. As a result, there does not appear to be a debit to offset the credit for the liability for installment payments recognized under paragraph 33b. The Board should add a paragraph 33c like paragraphs 31b and 32b or clarify what the debit is to offset the liability recognized under paragraph 33b.

Finally, if the Board changes the recognition point for the liability for installment payments under paragraph 33b to the commencement of the PPP term and adds a paragraph 33c, the right-to-use asset should be recognized at the commencement of the PPP term.

**Paragraph 33, second to last sentence**—We suggest the Board change “That liability” to “The liability for the underlying PPP asset” because the previous sentence does not refer to a liability, and there are 2 liabilities addressed prior to that sentence. Further, we suggest the Board include a provision to adjust the deferred outflow of resources for changes in the liability for the underlying PPP asset like the provision in paragraph 45 for adjusting the right-to-use asset.

**Paragraph 47d and 47e**—We suggest the Board change “liability” to “liability for installment payments” in these paragraphs, like paragraph 47c, because these disclosures do not appear applicable to the liability for the underlying PPP asset recognized under paragraph 33a.

**Arrangements with multiple components**

Paragraph 52 requires governmental operators to account for each underlying PPP asset as a separate PPP component if the underlying PPP assets are in different major classes of assets. This requirement is like Statement 87, paragraph 65. However, paragraph 65 specifically states the purpose for this requirement is to disclose lease assets by major class. The ED does not include a similar note disclosure for underlying PPP assets. Accordingly, there does not appear to be any reason to require governmental operators to account for underlying PPP assets as a separate PPP component if the underlying PPP assets are in different major classes of assets. Therefore, we recommend the Board eliminate the second sentence of paragraph 52.

**PPP modifications**

**Paragraphs 58 and 60**—We suggest the Board provide guidance in these paragraphs for modifications to a PPP that meets the definition of an SCA when 1 or more underlying PPP assets are added but the increase in PPP payments does not appear reasonable. Specifically, the Board should address whether the transferor should adjust the asset recognized under paragraph 15a or 15b and the portion of the deferred inflow measured under 27c, and whether the governmental operator should adjust the portion of the right-to-use asset measured under paragraph 43b for the cost to purchase, construct, or improve the underlying PPP asset.
Paragraphs 59 and 61—These paragraphs contain provisions for debt refunding by the transferor like leases. However, for PPPs it appears that the operator in purchasing, constructing, or improving the asset may be the entity issuing debt to finance the purchase, construction, or improvement (see illustrative note disclosure for LTA in illustration 2). If so, we suggest the Board provide provisions related to debt refundings by the operator where the perceived economic advantages are passed through to the transferor.

Paragraph 60, second sentence—We suggest the Board replace “liability” with “liability for installment payments” because the liability for the underlying PPP asset is offset with a deferred outflow of resources rather than a right-to-use asset. Further, we suggest the Board address adjustment of the deferred outflow of resources for changes in the liability for the underlying PPP asset.

PPP terminations
Paragraphs 63a and 63d—The deferred inflow of resources for the underlying PPP asset referred to in paragraph 63d appears to be the portion of the deferred inflow measured in accordance with paragraph 27—the deferred inflow related to the receivable for the underlying PPP asset—that is also addressed in paragraph 63a. Paragraph 63a requires this deferred inflow to be netted with the receivable for the underlying PPP asset and a gain or loss recognized for the difference; however, paragraph 63d requires the deferred inflow—after being reduced by termination penalties and purchase costs—be recognized as a gain. This seems inconsistent. We suggest the Board modify paragraph 63a to address only the receivable for installment payments and its related deferred inflow of resources and modify paragraph 63d to address both the receivable for the underlying PPP asset and its related deferred inflow.

Paragraph 63c—It is unclear why this paragraph requires the carrying value of the deferred inflow of resources be reduced by termination penalties paid to the operator only and not also amounts paid to the operator to purchase the underlying PPP asset like paragraphs 63b and 63d. We suggest the Board include amounts paid to the operator to purchase the underlying PPP asset in paragraph 63c as well.

Paragraph 64—The proposed governmental operator accounting for partial or full PPP terminations does not address the carrying value of the portion of the right-to-use asset related to the purchase, construction, or improvement costs or initial direct costs measured in accordance with paragraphs 43b and 43d. We suggest the Board provide guidance for reducing these carrying values.

Paragraph 64c—This paragraph addresses reducing the carrying value of the liability for the underlying PPP asset but does not address reducing the carrying value of the related deferred outflow of resources. We suggest the Board provide guidance for reducing the deferred outflow.

Appendix C
Illustration 1, illustrative disclosures—The State and MTA note disclosures at the commencement of the arrangement refer to the arrangement as a service concession arrangement in the last sentence but as a public-public partnership arrangement in the first sentence. We suggest the Board call the arrangement a public-public partnership arrangement in both sentences for consistency and because public-public partnership arrangement is a more easily understood term than a service concession arrangement.

Illustration 2—In the second paragraph heading and the first sentence of the LTA illustrative disclosure, “placed into service” should be “placed into operation” for consistency with paragraph 15.
Appendix D

Section 1200.115—Based on the codification instructions for Statement 87, section 1200.115 is referring to the leases paragraph on fiscal funding clauses (Statement 87, paragraph 13). Based on this ED’s instructions, section 1200.115 would be referring to the reassessment of the PPP term (ED, paragraph 13). It appears it should instead be referring to the fiscal funding clause paragraph (paragraph 11), which would be P90.108. However, the SBITA ED codification instructions have section 1200.115 referring to the reassessment of the subscription term (SBITA ED, paragraph 12) rather than the fiscal funding clause (SBITA ED, paragraph 10). Accordingly, there doesn’t appear to be consistency among these standards. Based on the extant leases paragraphs section 1200.115 references prior to Statement 87, it appears the fiscal funding clause paragraphs are the appropriate references.

Section 1400—The instructions preceding paragraph .143 incorrectly refer to paragraph .141.

Section P90.101—ED paragraph 3 refers to both PPPs and APAs; however, this section would address only PPPs. Therefore, it appears this instruction should not cite paragraph 3 in full but should instead provide an edited paragraph like the instructions for A90.101.

If you have any questions concerning our comments, please contact me at (602) 553-0333 or mstelpstra@azauditor.gov

Sincerely,

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