



**MAULDIN
& JENKINS**

WEDNESDAY'S
News You Can Use

GASBS 91:

Conduit Debt Obligations

Presented by: **Joel Black, CPA**



Carl Vinson
Institute of Government
UNIVERSITY OF GEORGIA



Today's Presenter



Joel Black, CPA, is a partner with Mauldin & Jenkins LLC specializing in serving local and state governmental and nonprofit entities throughout the Southeast. He has 24 years of experience providing attestation, consulting and instructional services. Joel currently serves on the AICPA's State and Local Government Expert Panel. His responsibilities have included responding to GASB exposure drafts on behalf of the profession, instructing at national conferences, and updating and re-writing several chapters of the AICPA Accounting and Audit Guide for State and Local Governments and the AICPA Audit Guide on Government Auditing Standards and OMB Circular A-133.

Learning Objectives

At the end of this session, you should be able to:

- Define conduit debt
- Recall the five mandatory criteria for classification as conduit debt
- Discuss limited, additional and voluntary commitments
- Recall various note disclosures

MAY 2019

Governmental Accounting Standards Series

Statement No. 91 of the
Governmental Accounting
Standards Board

Conduit Debt Obligations

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB 91 – Conduit Debt Obligations

*Effective for periods
beginning after December 15,
2020*

*(fiscal years 12/31/21 and
6/30/22)*

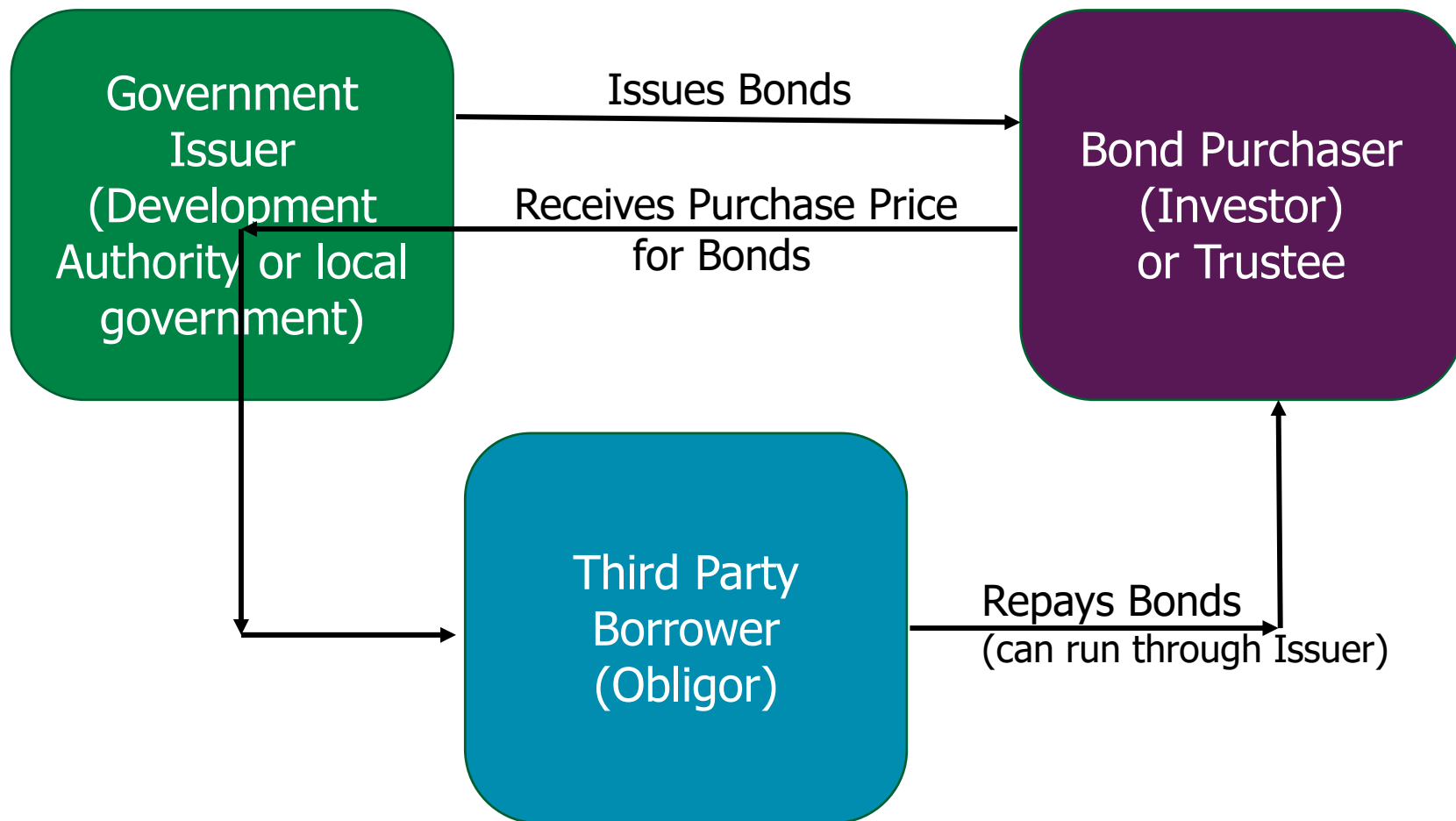
Defining Conduit Debt

Definition of Conduit Debt



"A debt instrument issued in the name of a state or local government (the "issuer") that is for the benefit of a third party that is primarily liable for the repayment of the debt instrument (the "third-party obligor")."

Definition of Conduit Debt



Who Typically Issues Conduit Debt

Typically, we see conduit debt issued by an entity focused on development

1. Development Authority
2. Downtown Development Authority
3. Industrial Development Authority
4. Urban Redevelopment Agency or Authority



- Not limited to these, but these are the most common places we see conduit debt
- These authorities are each established under state law and have slightly different purposes or coverage areas, but each is tied to development in some way and, thus, are common issuers of conduit debt
- Depending upon their structure and incorporation, these entities may or may not be part of a typical, primary government's (such as city or county) financial reporting entity

Conduit Debt Criteria



To be conduit debt, all five criteria must be met:

1. At least three parties
 - a) Issuer
 - b) Third-party obligor
 - c) Debt holder or trustee
2. Issuer and obligor NOT part of the same reporting entity
 - a) Watch out for this
3. Debt not a parity bond or cross collateralized with other debt of issuer
4. The third-party obligor (or its agent) – not the issuer – ultimately receives the proceeds of the debt
5. The third-party obligor – not the issuer – is primarily obligated for the payment of all debt service

Typical Language in Offering Document



- Some common language from an offering document in the issuance of conduit debt

THE BOND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OF THE STATE OF GEORGIA, EXAMPLE COUNTY, THE ISSUER OR ANY MUNICIPALITY, POLITICAL SUBDIVISION OR OTHER PUBLIC BODY OF THE STATE OF GEORGIA, NOR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF ANY SUCH PUBLIC BODY, NOR SHALL ANY SUCH PUBLIC BODY BE SUBJECT TO ANY PECUNIARY LIABILITY THEREON, EXCEPT, AS TO THE ISSUER.

Knowledge Check



Under GASBS 91, which of the following is **not** a criterion for conduit debt?

- A. At least three parties (issuer, third-party obligor, debt holder/trustee)
- B. Issuer and obligor are a part of the same reporting entity
- C. Issuer and obligor are NOT part of the same reporting entity
- D. Third-party obligor ultimately receives the proceeds of the debt

Issuer Commitments

Limited, Additional & Voluntary Commitments Extended by Issuers

- Issuers' commitments are **limited** to the resources provided by the third-party obligor
- Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default
 - Extending a moral obligation pledge
 - Extending an appropriation pledge
 - Extending a financial guarantee
 - Pledging its own property, revenue, or other assets as security
- Issuer may also extend a **voluntary commitment**, in which the issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third is, or will be, unable to pay

Recognition by the Issuer

- Issuer should **not (cannot)** recognize a liability for a conduit debt obligation
- Possible to have a related liability as a result of an “additional” or “voluntary” commitment
- **Additional commitment** – report a liability when **qualitative** factors indicate it is **more likely than not** that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment** – if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is **more likely than not** that the issuer will support debt service payments

Re-evaluate, at least annually, whether recognition criteria are met while conduit debt is outstanding for voluntary commitments for which a liability is recognized and all additional commitments

Qualitative Factors for Commitment

Obligor:

- Initiates process of bankruptcy or financial reorganization
- Breaches a debt-contract provision related to conduit debt (rate covenants, coverage ratios, default or delinquency in payments)
- Experiencing significant financial difficulty (para. 13,c)
 - Failure to make payments to paying agents or trustees on a timely basis
 - Initiation of a process to intercept receipts to make debt service payments
 - Drawing on a reserve fund to make d/s payments
 - Debt holder concessions
 - Loss of major revenue source
 - Significant investment losses

Continued on Next Slide

Qualitative Factors for Commitment

Project:

- If project that is expected to provide funding for debt service is:
 - Terminated
 - The subject of litigation that would negatively affect the project

Issuer:

- Concern that default on conduit debt would affect its one access to capital
- History of fulfilling additional commitments (including voluntary support)
- Ability or willingness to support debt service

Knowledge Check



It is possible to have a related liability as a result of an “additional” or “voluntary” commitment.

- A. True
- B. False

Associated Arrangements

Arrangements and Capital Assets

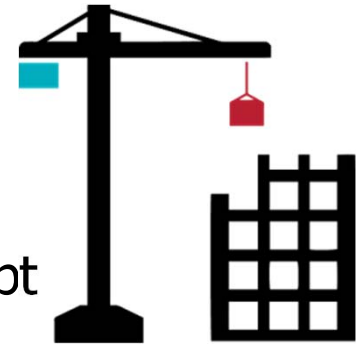
Some conduit debt obligations include **arrangements** that involve capital assets to be used by the third-party obligor, but owned by the issuer

- Capital asset is built or acquired with proceeds of the conduit debt obligation
- Issuer retains title to the capital asset from the beginning of the arrangement
- Payments from the third-party obligor are to cover debt service payments
- Payment schedule of the arrangement coincides with the debt service repayment schedule

Arrangements and Capital Assets

Issuer Accounting:

- Do **not** report those arrangements as leases
- Do **not** recognize a liability for the related conduit debt obligations
- Do **not** recognize a receivable for the payments related to those arrangements
- If the arrangement meets the definition of a service concession arrangement, follow GASB Statement 60



Arrangements and Capital Assets

Classification of Associated Arrangements

Issuer Relinquishes Title

- No liability for conduit debt
- No capital asset
- No receivable payments

Issuer Retains Title & Obligor has Use of Entire Asset

- No liability for conduit debt
 - No receivable for payments
 - No capital asset
- At the end of the arrangements, issuer recognizes
- Capital asset at acquisition value and an inflow of resources (revenue) in same amount

Issuer Retains Title & Obligor has Use of Portions of Asset

- No liability for conduit debt
- No receivable for payments
- Recognize entire capital asset at acquisition value, and a deferred inflow of resources for same amount (*recognize as revenue over the term of the arrangement*)

Knowledge Check



Which of the following is not true regarding arrangements that involve capital assets to be used by a 3rd party obligor?

- A. Issuer should recognize a receivable for related payments
- B. Issuer should NOT recognize a receivable for related payments
- C. Issuer should NOT report those arrangements as leases
- D. Issuer should NOT recognize a liability for the related conduit debt

Note Disclosures

Note Disclosures



- A general description of the issuer's conduit debt obligations (all issuers)
 - Description of limited commitments
 - Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
 - Aggregate **outstanding** principal amount **at the end of period**
 - Note this is a significant change. Simply disclosing the original principal balance no longer will be an option.
- If the issuer recognizes a related liability (i.e. guarantee)
 - Description of timing of recognition and measurement of the liability
 - Beginning balances, increases, decreases, ending balances
 - Cumulative payments that have been made, if any
 - Amounts expected to be recovered, if any, for those payments

Implementing the New Standard

Plan of Action



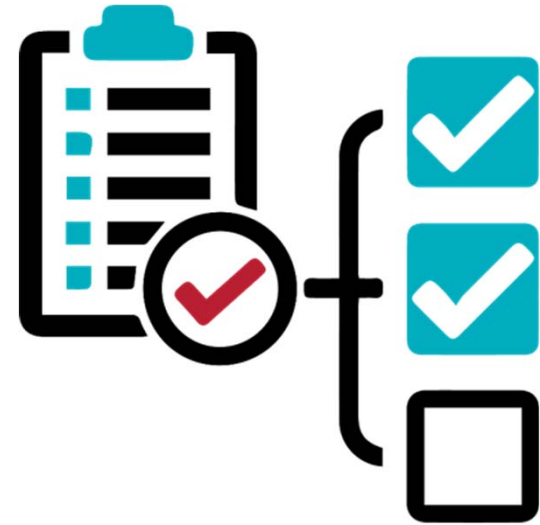
Implementation

- Effective for periods beginning after December 15, 2020
 - December 31, 2021, June 30, 2022, September 30, 2022
- Retroactive implementation
 - Restate first year presented if practicable or
 - Restate beginning net position or fund balance showing cumulative effect of implementation
 - Note disclosure of nature of restatement and reason for not restating prior years



Implementation Plan

- Inventory all conduit debt issued
- Any recorded as debt on the financial statements?
- Determine if any commitments or associated asset arrangements
- Establish a process to:
 - Add issues as they occur
 - Annually evaluate commitments (if any)
 - Obtain the year-end principle balance on all outstanding issues for disclosure purposes

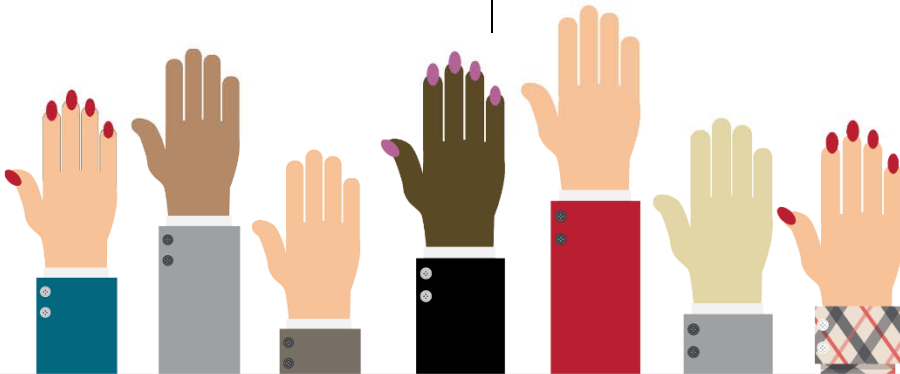


QUESTIONS?

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Thank You!



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