

Office of Statewide Reporting and Accounting Policy
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

June 1, 2023

OSRAP MEMORANDUM 23-10

TO: Fiscal Officers
All State Entities

FROM: Brian Fleming, CPA
Director

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 91, *Conduit Debt Obligations*

Link to full statement: [GASB 91](#)

Effective Date: State's fiscal year ended **June 30, 2023**.

Summary

This Statement provides a single method of reporting conduit debt obligations **by issuers** and eliminates diversity in practice associated with reporting these obligations by clarifying the existing definition; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor). For example, a government entity issues a debt obligation to a debt holder with the proceeds going to a non-profit organization to build a new facility, and the non-profit organization is responsible for repaying the debt.

As a result of this Statement, an issuer that has **not** extended any additional or voluntary commitments will not report a liability. However, a liability may need to be reported if the issuer extends additional or voluntary commitments to support debt service payments in the event the third-party obligor is, or will be, unable to do so. This Statement also requires the issuer to disclose details of its conduit debt obligations.

Key Provisions

Definition

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer. A parity bond is a bond with equal rights to the collateral as other bonds issued under a common bond indenture.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

For examples on the application of the definition of a conduit debt obligation, see illustrations provided in Appendix C of the Statement.

Limited Commitments Extended by the Issuer

An issuer of conduit debt obligation makes limited commitments to maintain the issue's tax-exempt status. In a limited commitment, the issuer assumes no responsibility for debt service payments beyond the resources, if any, provided by the third-party obligor. However, the limited commitment also may include facilitating payments from the third-party obligor to the debt holder(s) directly or through an agent.

Additional or Voluntary Commitments Extended by the Issuer

The issuer can extend an additional commitment or a voluntary commitment of its own resources. Under an additional commitment, the issuer agrees to support debt service payments only in the event the third-party obligor is, or will be, unable to do so. Examples of additional commitments by an issuer to support debt service payments include, but are not limited to, the following types:

- a. Extending a moral obligation pledge.
- b. Extending an appropriation pledge.
- c. Extending a financial guarantee.
- d. Pledging its own property, revenue, or other assets as security.

Under a voluntary commitment, an issuer does not make an additional commitment but on a voluntary basis decides to make a debt service payment or request an appropriation for a debt service payment in the event that the third party is, or will be, unable to do so.

Recognition and Measurement

When the issuer has not made any additional or voluntary commitments, the issuer **should not** recognize the conduit debt obligation as a liability.

If additional or voluntary commitments exist, an issuer **should** recognize a liability to support debt service payments and an expense in the financial statements if qualitative factors¹ indicate that it is *more likely than not*² that the issuer will support one or more debt service payments for a conduit debt obligation.

The amount recognized for the liability and expense should be measured as the discounted present value of the best estimate of the future outflows (that is, payments to support debt service) expected to be incurred. If there is no best estimate of the future outflows expected to be incurred but a range of estimated future outflows can be established in which no amount within that range appears to be a better estimate than any other amount, the discounted present value of the minimum amount in that range should be recognized.

Arrangements Associated with Conduit Debt Obligations

GASB 91, paragraphs 18-23, provide reporting requirements for issuers of conduit debt who enter into arrangements (often characterized as leases) with third party obligors for the construction or acquisition of capital assets to be used by the obligor. In some cases, the issuer retains the title to the capital asset from the beginning of the arrangement and the third-party obligor pays the debt service payments. If the arrangement meets the definition of a service concession arrangement, the issuer should follow the guidance in GASB Statement No. 94, as amended. Otherwise, the characteristics of the agreement determine how the arrangement should be recognized by the issuer as follows:

- If the issuer relinquishes title of the asset at the end of the agreement, the issuer **would not** recognize the debt, the capital asset, or the receivable.
- If the issuer retains title and the third-party obligor has exclusive use of the entire capital asset, the issuer would not recognize anything at the inception of the agreement, but would recognize the capital asset at acquisition value and an inflow of resources once the agreement terminates.
- If the issuer retains title and third-party obligor has exclusive use of portions of the capital asset, the issuer would recognize the acquisition value of the capital asset at inception and a deferred inflow of resources that is recognized as an inflow of resources (i.e. revenue) in a systematic and rational manner over the term of the arrangement.

¹ See GASB 91, paragraph 13, for qualitative factors to assess when it is more likely than not that the issuer will support one or more debt service payments.

² The term *more likely than not* means a likelihood of more than 50 percent.

Disclosure Requirements

An issuer should disclose the following about conduit debt obligations:

- a. General description of the issuer's conduit debt obligations.
- b. General description of the issuer's limited commitments.
- c. General description of the issuer's voluntary commitments.
- d. General description of the issuer's additional commitments, including (1) the legal authority and limits for extending the commitments; (2) the length of time of the commitments; and (3) arrangements, if any, for recovering payments from the third-party obligors.
- e. The aggregate outstanding principal amount of all conduit debt obligations that share the same type of commitments at the end of the reporting period.

If an issuer has recognized a liability for additional or voluntary commitments, the issuer must also disclose the following:

- a. A brief description of the timing of recognition and measurement of the liability and information about the changes in the recognized liability, including (1) beginning-of-period balances; (2) increases, including initial recognition and adjustments increasing estimates; (3) decreases, including payments made and adjustments decreasing estimates; and (4) end-of-period balances.
- b. Cumulative amounts of payments that have been made on the recognized liability at the reporting date, if any.
- c. Amounts expected to be recovered from those payments, if any.

For examples of disclosures, see illustrations provided in Appendix C of the Statement.

Additional Resources

Please contact Ms. Kimberly Dwin at (225) 342-4721 or via email at Kimberly.Dwin@la.gov if your primary government state entity has issued any conduit debt obligations or if you have any questions regarding implementation of this Statement.

BF:kd