

SERVICE CONCESSION ARRANGEMENTS

By: Tim Lyons

What is a service concession arrangement?

In a time of increased budgetary pressure, governments frequently look to different types of partnership arrangements for more cost-effective ways of providing services to their constituents. While there is no single, widely-accepted definition of the term "public-private partnership," many descriptions characterize these arrangements as an agreement between a government and a private sector entity to deliver a governmental asset (normally infrastructure or a public facility) and, often, the related public service. In certain circumstances, these public-private (or public-public partnerships) can take the form of a service concession arrangement (SCA).

An SCA is an arrangement between a transferor (a government) and an operator in which **ALL** of the following criteria are met:

1. The transferor conveys to the operator the right, and related obligation, to provide public services through the use and operation of a capital asset in exchange for significant consideration (such as upfront payment, installment payments, or a new facility).
2. The operator is compensated by collecting fees from third parties.
3. The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.
4. The transferor determines or has the ability to modify or approve:
 - a. What services the operator is required to provide
 - b. To whom the services will be provided
 - c. The prices or rates that will be charged

What are some examples of service concession arrangements?

Some examples of SCAs could include the following:

1. Construction Company, Inc. will design and build Sample City's Convention Center and will obtain the right to collect fees from third party users of the facility for thirty years. At the end of the term, the Convention Center will revert to Sample City.
2. The Parking Company will confer to Anywhere County an up-front payment of \$5,000,000 for the right to access the County's parking deck and collect fees from the users of the facility.
3. Road Builders, Inc. will design and build a toll road in State, USA. Road Builders will finance the construction costs, provided the associated services, collect the tolls from the users, and convey the toll road to the State at the end of the agreement.

Additional areas where SCAs may be seen include municipal airports, cafeterias, and recreation facilities such as golf courses or swimming pools.



Our Resources

As always, we are available as a resource to you as questions arise.

Please contact any of our governmental partners and manager, at 1-800-277-0050 for assistance.



You may sign up to receive Mauldin & Jenkins newsletter, Governmental Accounting News, by emailing Kelsie Deiter at kdeiter@mjcpa.com or by calling 770-541-8849.

Service Concession Arrangements are NOT...

In order to clarify the unique circumstances that comprise an SCA, it is sometimes easier to contrast those arrangements that are not an SCA with those that are (above). SCAs do not include the following:

1. Shared service arrangements within a government or between governments for purchasing, risk management, IT services, etc.
2. Pledges or loans of investments or receivables
3. Joint ventures/joint powers agreements, etc.

Accounting for Service Concession Arrangements—GASB Statement No. 60

Effective for periods beginning after December 15, 2011, governments are required to account for SCAs as prescribed by GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Statement 60 applies to full accrual basis financial statements only (statements of net position) and not governmental fund statements. As governments are more likely to be a transferor in an SCA, the remaining guidance below will focus on transferor accounting.

- If the facility associated with the SCA is an existing facility, the transferor should continue to report the facility as a capital asset.
- If the facility associated with the SCA is a new facility which is purchased or constructed by the operator, or an existing facility that has been improved by the operator, the transferor should report
 - The new facility or the improvement as a capital asset at fair value when it is placed in operation,
 - Any contractual obligations as liabilities, and
 - A corresponding deferred inflow of resources equal to the difference between the fair value of the asset and the liabilities
- A transferor should recognize a liability for certain obligations to sacrifice financial resources under the terms of the arrangement. Liabilities associated with the SCA should be recorded at their present value if the obligation is significant and meets either of the following criteria:
 - Contractual obligations that directly relate to the facility (for example, obligations for capital improvements, insurance, or maintenance of the facility)
 - Contractual obligations that relate to a commitment made by the transferor to maintain a minimum or specific level of service in connection with the operation of the facility (for example, providing a specific level of police and emergency services for the facility or a minimum level of maintenance to areas surrounding the facility)
- If an SCA requires up-front or installment payments from the operator, the transferor should report:
 - The up-front payment or present value of installment payments as an asset
 - Any contractual obligations as liabilities, and
 - A deferred inflow of resources equal to the difference between the two
- Revenue should be recognized as the deferred inflow of resources is reduced. This revenue should be recognized in a systematic and rational manner over the term of the arrangement.

The above represents an overview of the accounting for SCAs from the standpoint of the transferor. GASB 60 covers many other situations and scenarios that can arise from an SCA, including the accounting when a government is an operator. Mauldin & Jenkins partners and staff are ready to assist you with any of your questions regarding SCAs including the intricate details of GASB 60 not discussed above.

Sequestration Cuts Direct Payments on Build America Bonds and Tax Credit Bonds by 8.7%

Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, certain automatic spending cuts will be implemented as of March 1, 2013. These cuts include automatic across the board cuts in certain categories of federal spending for the period from March 1, 2013 until the end of the federal government's fiscal year on September 30, 2013. The cuts include mandatory reductions in the amounts scheduled to be paid by the federal government to issuers of Build America Bonds, Qualified Zone Academy Bonds, Qualified School Construction Bonds, New Clean Renewable Energy Bonds and Qualified Energy Conservation Bonds (collectively, "Direct-Pay Bonds") under section 6431 of the Internal Revenue Code.

Because cuts must be achieved over only seven months instead of twelve, the effective percentage reduction for fiscal year 2013 on payments for Direct-Pay Bonds will be 8.7% according to the Internal Revenue Service's announcement on March 4, 2013. The sequester reduction rate will be applied to amounts claimed by an issuer on any IRS Form 8038-CP filed with the IRS that results in a payment to such issuer on or after March 1, 2013. This reduction will result in a corresponding increase in interest costs that must be paid from an issuer's other revenue sources.

The procedures for claiming payments for Direct-Pay Bonds have not changed. Issuers should continue to file an IRS Form 8083-CP as provided for in the form's instructions (i.e., claiming a refund for the full amount due). Issuers affected by the cuts will be notified through correspondence that a portion of their requested payment was subject to the sequester reduction. More information may be obtained from the IRS website: <http://www.irs.gov/Tax-Exempt-Bonds/Effect-of-Sequestration-on-Certain-State-and-Local-Government-Filers-of-Form-8083CP>.

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Tim Lyons, CPA, CGMA is a supervisor with Mauldin & Jenkins, LLC. Tim received his BA in Accounting from Furman University and his MS in Accountancy from the College of Charleston. Since joining Mauldin & Jenkins in 2009, Tim has gained substantial experience serving clients in the state and local governmental sector, and currently spends 100% of his time serving governments. Services to governmental units include: financial and compliance audits; agreed-upon procedures; compilations and reviews; general obligation and revenue bond comfort and consent procedures; performance audits; and general consulting services. Tim has prior experience providing audit and tax services to commercial entities with a firm in Charleston, South Carolina before moving to Atlanta to join Mauldin & Jenkins.



Tim is actively involved with governmental trade associations as a member of the Special Review Committee for the GFOA in the CAFR certificate of achievement for excellence in financial reporting program. Tim is also an instructor for governmental CPE with Mauldin & Jenkins staff on an annual basis. Additionally, Tim's involvement with the overall CPA profession extends to both the national and state levels. As a member of the American Institute of Certified Public Accountants (AICPA), Tim is a graduate of the AICPA's Leadership Academy, Class of 2012 and serves on the leadership committee of the Assurance Section of the Georgia Society of Certified Public Accountants (GSCPA).