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KRISTY H. NICHOLS
COMMISSIONER OF ADMINISTRATION

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

March 22, 2013

OSRAP MEMORANDUM 13-24

TO: Department Directors
All State Entities and Component Units

FROM: Afranie Adomako, CPA
Director

SUBJECT: Governmental Accounting Standards Board (GASB) Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Survey (Effective July 1, 2012 – FY 2013)

GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires state and local governments to report service concession arrangements (SCAs). It describes an SCA as "...a type of public-private or public-public partnership" and refers to a variety of activities such as service arrangements, management arrangements, and SCAs.

An SCA is an arrangement between a government (the transferor) and an operator, who may be a governmental entity or a nongovernmental entity, 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 (referred to in this Statement as a "facility") in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
2. The operator collects and is compensated by fees from third parties.
3. The transferor determines or has the ability to modify or approve what services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.
4. The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.

Public services, as used in item 1 above, relate to the primary function of the facility (for example, operating a state medical facility) rather than ancillary services operated in conjunction with the facility (for example, operating the gift or snack shop at a state medical facility).

Service concession arrangements may include, but are not limited to arrangements in which the operator will:

- a. design and build a facility and will obtain the right to collect fees from third parties (for example, construction of a municipal complex for the right to lease a portion of the facility to third parties)
- b. provide significant consideration in exchange for the right to access an existing facility (for example, a parking garage) and collect fees from third parties for its usage
- c. design and build a facility for the transferor (for example, a new tollway), finance the construction costs, provide the associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement.

During the GASB's deliberations on the nature of SCAs, they determined that the following arrangements **should not be included in the scope** of GASB Statement 60:

1. Arrangements in which a third party **only** designs and builds a capital asset – these are construction projects in which both the design and construction aspects are bid and contracted to a third party to obtain a specific service. A design and build arrangement is entered into for the purpose of obtaining a service (construction) that is not provided to the general public but rather to the government itself.
2. Vendor Arrangements – these are government contracts with vendors to provide ancillary services using a public asset; for example, vendors using a stadium as a venue to sell food or souvenirs. Such ancillary services that are operated in conjunction with the facility, as opposed to services that relate to the primary function of the facility itself **are excluded**.
3. Service and Management Arrangements – these are service contracts in which a government contracts with a separate entity for services it would otherwise have performed. A management contract builds on a service contract by placing management responsibilities for the service with the separate entity. These arrangements may be referred to as outsourced or contracted-out services. These arrangements may or may not involve the use of the facility. A government may directly compensate the vendor for the services provided, or a government may compensate a vendor by allowing the vendor to collect and retain all or a portion of the fees from providing the service they are contracted to provide.
4. Arrangements in which the transferor makes payments to the operator – these involve an operator constructing and operating a facility owned by the transferor, with the operator receiving payment for the construction and operation services from the transferor, rather than from user fees. The construction element should be reported as Construction in Progress and as a capital asset at completion. The operations portion of the arrangement is an SMA, and payments related to the operation elements should be accounted for according to existing guidance for expenses.

5. Privatization – occurs when a government permanently transfers a capital asset or service to an operator, generally through sale. The transferor divests itself of responsibility for the facility and the related delivery of services (other than possible regulatory authority). Privatization through sale or transfer of capital assets should be reported similar to any other capital asset sale or transfer.

To assist OSRAP in identifying any service concession arrangements that must be reported in Louisiana's Comprehensive Annual Financial Report (CAFR), we ask that you complete the enclosed survey for your entity. To assist in completing the survey, the illustrations from GASB Statement 60 are attached for your review. Your response will provide information needed to implement GASB Statement 60, help us determine the type of information needed for the annual financial reports (AFRs), and allow us to address any concerns that you may have.

Please return the completed survey to the Office of Statewide Reporting and Accounting Policy (ORSAP) by close of business April 22, 2013. If you have any questions concerning this memo, GASB Statement 60, or the survey, please contact Katherine Porche at (225) 219-4442 or via email at Katherine.Porche@la.gov.

AA/kbp

Enclosure

**GASB STATEMENT 60 – ACCOUNTING AND FINANCIAL REPORTING FOR
SERVICE CONCESSION ARRANGEMENTS**

Office of Statewide Reporting and Accounting Policy Survey

Entity Name: _____

Contact person: _____

Telephone number: _____

Email address: _____

Based on the information provided, does your entity participate in any Service Concession Arrangements (SCAs)?

Yes _____ No _____

If yes, please provide the following information:

- Identify the parties to the arrangement:

- The time period of the SCA:

Start date: _____

End date: _____

- Explain the arrangement:

- The asset/facility that is involved: _____

- Identify the significant consideration – up-front payments, installment payments, a new facility, improvements to an existing facility, etc.

Attach select pages from the service concession arrangement that provide the facts.

GASB 60, Appendix D – Illustrations of Service Concession Agreements

These illustrations are provided to help you understand the types of arrangements required to be reported by GASB 60. Since we are trying to first identify SCAs, the reporting requirements provided in the statement for these situations has been removed; this has been done to avoid information overload.

Illustration 1: Service Concession Arrangement Involving an Existing Tollway

A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Metropolitan Tollway Authority (MTA), a governmental operator, involving the Pelton Tollway, a capital asset currently being reported by the State in the Tollway Authority enterprise fund at a carrying amount of \$1 billion. The SDOT receives an up-front payment of \$3 billion from the MTA, in return for which the MTA receives the right to operate the tollway and receive and retain toll revenues for a period of 75 years.

The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. The transferor has no contractual obligations to sacrifice financial resources under this agreement. The MTA is not a component unit of the State's financial reporting entity.

Illustration 2: Service Concession Arrangement to Design, Build, and Operate a New Tunnel

A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Local Tunnel Authority (LTA), a governmental operator, in which the LTA has agreed to design, build, and then operate a tunnel, the Geisman Tunnel, for 40 years. During the term of the arrangement, the LTA is entitled to collect and retain tolls generated by the tunnel.

The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. The cost to the LTA to construct the tunnel is \$4 billion. The fair value of the tunnel when it is placed into operation is \$5 billion. The fair value represents the present value of the net cash flows expected to be collected through the operation of the tunnel. The SDOT has a contractual obligation to insure the tunnel each year over the course of the arrangement beginning when the tunnel is placed into operation. The present value of this insurance obligation is estimated to be \$500,000. The LTA is not a component unit of the State's financial reporting entity.

Illustration 3: Service Concession Arrangement Involving an Existing Bridge

A State, through its State Department of Transportation (SDOT), the transferor, enters into a service concession arrangement with the County Bridge Authority (CBA), a governmental operator, involving the Ruane State Bridge, an asset currently reported by the SDOT in the Toll Bridge enterprise fund in the amount of \$50 million. The bridge has a remaining useful life of 50 years. SDOT receives an up-front payment of \$100 million from the CBA, in return for which the CBA receives the right to operate the bridge and collect and retain toll revenues for a period of 20 years.

GASB 60, Appendix D – Illustrations of Service Concession Agreements

The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. Under this arrangement, the SDOT is contractually obligated to maintain the bridge over the course of the arrangement. The present value of the cost of providing this maintenance is estimated to be \$10 million. The CBA is not a component unit of the State's financial reporting entity.

Illustration 4: Service Concession Arrangement for County Golf Course

Kranzel County, through its County Park District (CPD), the transferor, enters into an arrangement with XYZ Golf, Inc. (XYZ), a nongovernmental operator, in which XYZ has agreed to operate and maintain one of the County's three golf courses, the Driscoll River Golf Course, and collect the related fees for 10 years. The golf course and related equipment are reported as capital assets by the County in its Golf Course enterprise fund at a carrying amount of \$500,000. XYZ has agreed to pay the CPD installment payments over the course of the arrangement; the present value of these installment payments is estimated to be \$1.5 million. XYZ also has agreed to pay the CPD 10 percent of the revenues collected from the operation of the golf course.

The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. The transferor has no contractual obligations to sacrifice financial resources that meet the criteria to be recognized as a liability in paragraph 10 of this Statement.