

Service Concession Arrangements (SCA)

Key Points for SCAs

- SCAs are a type of public/public partnership *or* public/private partnership.
- Requires
 - **Transferor Government** with rights and can impose obligations through the use of infrastructure or facilities
 - **Operator** that can be another government or a private entity

Key Points for SCAs (cont.)

- Terms may include
 - Payments from the operator to the government for the right to build, operate and collect user fees on infrastructure or public assets.
 - May include revenue sharing arrangements.

Key Points for SCAs (cont.)

- Required criteria
 - Transfers must be between a government (Transferor) and *either* another government or a private entity (Operator)
 - Right and obligation is conveyed to provide public services through use and operation of a capital asset in exchange for *significant consideration*.
 - Upfront payment, installments, new facilities or betterment of existing facility

Key Points for SCAs (cont.)

- Require Criteria (Cont.) all must be met:
 - Operator collects and is compensated by fees from **third parties**.
 - Transferor government is entitled to a residual interest at the end of the agreement.
 - Transferor retains the ability to modify/ approve services, prescribe to whom service is provided and set prices/rates.

Reporting SCAs

- Reporting is only on full accrual financial statements (not governmental fund statements)
- Transferor continues to report capital asset and depreciation, in most cases, for existing assets
- New facility, capital assets reported at fair value (FV) along with contractual obligation
 - Deferred inflow of resources reported for difference between FV and obligation

Consideration

- Upfront or installment payments from operator
 - Record the payment(s) at present value as an asset
 - Record contractual obligations as liabilities
 - Deferred inflow of resources as the difference
 - Revenue is recognize and deferral reduced over the contract period

Governmental Operator Accounting

- Right to access the facility is an intangible asset
 - Improvements increase asset
 - Asset is amortized over the life of agreement
 - Additional accounting for specific condition upon return at the end of agreement

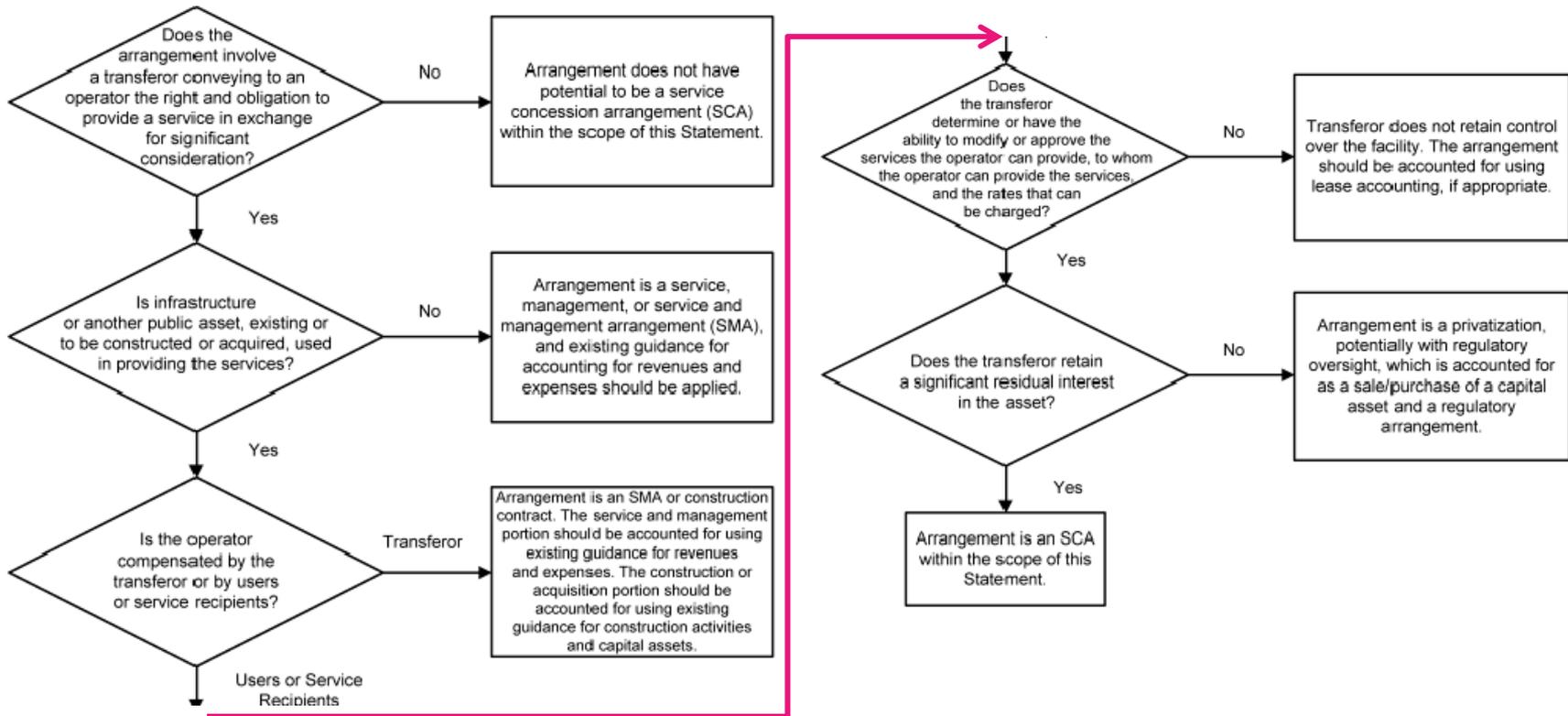
Revenue Sharing

- Governmental Operator reports all revenue earned and expenses incurred - include amounts shared with transferor - that are associated with operation of facility
- Transferor reports only portion of shared revenue when earned in accordance with agreement

Guaranteed Payments

- Revenue sharing arrangements that contain amounts to be paid to transferor regardless of revenues earned
- Recorded at the present value of amounts by transferor and governmental operator

SCA Flowchart



Does the arrangement
involve a transferor
conveying to an
operator the right and
obligation to provide a
service in exchange for
significant
consideration?

No ...
Not a SCA

Is infrastructure or
another public asset,
existing or to be
constructed or
acquired, used in
providing the services?

No ...
Not a SCA

Is the operator
compensated by the
transferor or by users or
service recipients?

No ...
Not a SCA

Does transferor have the ability to modify or approve the services the operator can provide, to whom the operator can provide services, and the rates that can be charged?

No ...
Not a SCA

Does the transferor
retain a significant
residual interest in the
asset?

No ...
Not a SCA

Example

The Legislature passes a bill to enter into an arrangement with a private business (PB) for two dorm complexes at the UM or MSU. Two agreements are made:

1. PB will handle operations security and maintenance but not food concessions for a period of twelve years beginning on July 1, 2013. An upfront payment of \$1,500,000 will be made. 50% of each unit's rent will be retained by PB. Approval of who is a student that will qualify to rent a dorm and the ability to set the rent, remains with the university.
2. PB will increase building capacity by 20% with new construction to be completed by June 30, 2015. The dorms will be returned to the University in good or better condition than when constructed.

Example: Other information

- Dorm original construction cost: \$400,000,000. 50% depreciated as of June 30, 2013.
- New capacity cost: \$100,000,000 which will also be the FV at the time the new addition is put in service.
- The University is obligated to insure the facility. The PV of the cost of insurance is \$1,000,000 for the original facility and the PV of the insurance obligation at the time the addition is put in service is \$200,000.

Accounting for New Addition

At onset of SCA contract, the transferring government would make the following entry for the expected installment payments and contractual liability for insurance on the existing facility:

Entry made in the Actuals ledger:

Debit	Asset – Upfront Pmt	\$1,500,000
Credit	Insurance Liab	\$1,000,000
Credit	Deferred Inflow	\$500,000

Accounting for New Addition

Recording the addition:

Entry made in the Actuals ledger:

Debit	Non-depreciable Asset	\$100,000,000
Credit	Insurance Liab.	\$200,000
Credit	SCA Deferred Inflow	\$99,800,000

Accounting in Future Years

As insurance payments are made by transferor per agreement the liability is reduced:

Debit	Insurance liability	\$84,000
Credit	Cash	\$84,000

And the asset and deferred inflow are also reduced:

Debit	Deferred Inflow	\$84,000
Credit	Up-front pmt. asset	\$84,000

Examples of SCAs

- Water Treatment Plants
- Car parks
- Tunnels
- Airports
- Telecommunications networks
- Prisons

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Montana Operations Manual (MOM) Category 300 (Previously MOM II) Accounting Policies and Procedures

As of October 1, 2012, all State Accounting Division policies have been placed on the new Montana Operations Manual website (mom.mt.gov/default.mcpix). The Chapters (In Force) section of this website will be used for historical reference for a short period of time and then will direct users to the new MOM website. If you currently linking directly to MOM policies listed below, please redirect you links to point to the policies on the new website.

The MOM category 300 contains State of Montana accounting policies and procedures. It is published and maintained by the Department of Administration's State Accounting Bureau. Questions about MOM category 300 should be directed to: Department of Administration; State Accounting Bureau; Mitchell Building, Room 255; Helena, MT 59620-0102; (406) 444-3092. The information contained in MOM Category 300 is organized into chapters and management memos.

[Chapters \(Draft\)](#)

[Management Memos \(In Force\)](#)

Related Forms

- CMIA
- SABHRS

<http://accounting.mt.gov/forms/default.mcpix>