



Governmental Accounting Standards Board  
of the Financial Accounting Foundation

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## ***GASB Proposes Guidance for Service Concession Arrangements, and for Governments Going through Chapter 9 Bankruptcy***

The Governmental Accounting Standards Board (GASB) on June 30 proposed new standards of accounting and financial reporting meant to assist state and local governments with issues relevant in today's environment. The timing of these standards-setting projects is particularly opportune because they deal with issues that some governments are currently contending with and others may need to contend with in the future.

### **Service Concession Arrangements**

The Exposure Draft, *Accounting and Financial Reporting for Service Concession Arrangements*, would establish reporting guidance for service concession arrangements (SCAs). These agreements between governments and private entities (sometimes called public-private partnerships) or other governments (public-public partnerships) have become more prevalent.

For the purposes of this proposal, an SCA is an arrangement between a government *transferor* and a governmental or private sector *operator* in which two things necessarily happen. First, the government conveys the right and related obligation to the operator to provide services through the use of infrastructure—like a toll road—or another public asset. Second, the operator collects associated fees from third parties—for example, those who drive on the toll road.

Entering into SCAs may be viewed as beneficial from a government's point of view for a number of reasons. An SCA may provide the government with the ability to leverage existing infrastructure and public assets to generate additional available resources in the form of up-front payments from an operator for the right to operate such assets. SCAs may be used to facilitate construction and financing of new infrastructure and other public assets and transfer the risks associated with their construction and maintenance to a private entity. Risks associated with the building, financing, and operation of the infrastructure or other public assets often are shared

between the government and the private sector entity. SCAs also may be used to provide services to the general populace in a more efficient and cost-effective manner.

Determining the accounting and financial reporting for SCAs involves the evaluation of several issues, including the application of the definitions of financial statement elements (such as assets and inflows of resources) and communication methods (financial statements, notes, supporting information) and consideration of governmental accountability for infrastructure and other public assets and the services that are provided. This proposal would have two basic impacts. First, it would determine if the government transferor should report the asset associated with the SCA. Second, it would guide the determination of *when* a government transferor may report any upfront payment it receives from the operator as revenue.

### ***What is the GASB proposing?***

The service concession arrangements proposal is designed to improve consistency in reporting these types of arrangements, and consequently enhance the comparability of the accounting and financial reporting of SCAs among state and local governments. This proposal would apply specific criteria to determine whether a government transferor has control over the facility and, therefore, should report it as its capital asset. If the government meets all control criteria, it would report the facility as its capital asset, subject to existing guidance for capital assets. If the government does not have control over the facility, it would remove the assets from its financial statements.

This proposed Statement also would provide guidance for governments that are operators in an SCA. If the transferor government has control of the facility, then the governmental operator would report an intangible asset for its right to access the facility and collect third-party fees; it would amortize or allocate the cost of acquiring the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, a governmental operator's cost may be the amount of an up-front payment. For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

The proposal would require note disclosures about an SCA, including a general description of the arrangement and information about the associated assets and liabilities, the rights granted and retained, and related guarantees and commitments.

The provisions of this proposal, if approved as a final Statement, would be effective for financial statements for periods beginning after June 15, 2011 and generally would be required to be applied retroactively for all periods presented.

## **Chapter 9 of the United States Bankruptcy Code**

The Exposure Draft, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, would provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy

under Chapter 9 of the United States Bankruptcy Code. It would require governments to remeasure liabilities that are subject to adjustment in bankruptcy when the bankruptcy court confirms, or approves, a new payment plan. While municipal bankruptcies have historically been uncommon, it is critical for governments to have accounting and financial reporting guidance in the event, however unlikely, that they should find themselves in a state of financial distress such that they have sought and been granted Chapter 9 protection.

### ***What is the GASB proposing?***

There has been no existing authoritative accounting and financial reporting guidance for governments filing for bankruptcy. Other accounting standards that have been applied to Chapter 9 bankruptcy take differing approaches to recognition and measurement and other issues. The requirements in this proposed Statement would improve financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy protection. In addition, these requirements would provide financial statement users with better information regarding the effects of bankruptcy upon governments that file for Chapter 9 protection.

The accounting and financial reporting consequences of bankruptcy are determined by the type of relief provided to the government. The proposal would require governments to base remeasurement of accounts payable, notes, and bonds on the new payment plan that results from the bankruptcy proceedings. If the new payment plan reduces future interest payments, then the proposed Statement would require reporting lower interest costs in future periods. If the new payment plan reduces payments of principal or interest payable, then the proposal would require reporting gains at the time of the reduction. If the new payment plan does not indicate whether it reduces principal payments or future interest payments, then liabilities would be remeasured at the present value of the future payments, discounted at the original interest rate, and a gain would be reported at the time of the reduction.

The proposal states that existing authoritative guidance should be followed when remeasuring leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans. However, if a benefit plan is rejected in bankruptcy and becomes general unsecured debt, this proposal would require the existing liability to be removed and a new approved payment plan to be recognized as a judgment, with a gain or loss recognized for the difference.

For governments that are not expected to emerge from bankruptcy as going concerns, this proposal would require remeasurement of assets to a value that represents the amount expected to be received in liquidation. Also, it would classify gains resulting from remeasurement of liabilities and assets as extraordinary items.

Governments that have filed for bankruptcy would be required to disclose information regarding, among other things, the relevant conditions and events that led to the petition

for bankruptcy, the effects upon services, and the expected outcomes. The requirements of this proposal, if approved as a final Statement, would be effective for reporting periods beginning after June 15, 2009.

### **How Can You Help the GASB Complete These Standards?**

You can assist the GASB with the process of finalizing these proposed standards by reading the respective Exposure Drafts and providing feedback. The documents are available to download free from the GASB website, [www.gasb.org](http://www.gasb.org). (See the links below). It is most helpful if you react to not only the aspects of the proposals that you disagree with, but also those that you support. In addition, it is most valuable to the GASB when respondents explain why they support or oppose a particular facet of a proposal.

The comment deadline on the Exposure Draft, *Service Concession Arrangements*, is September 30. The comment deadline on the Exposure Draft, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, is August 28. You can submit comments by email ([director@gasb.org](mailto:director@gasb.org)) or traditional mail. Additional information about responding to the proposals can be found in the front of the Exposure Drafts.

- **Download the [SCA Exposure Draft](#)**
- **Download the [Chapter 9 Bankruptcies Exposure Draft](#)**
- **Read the [news release](#)**