Answers to questions from:
“Implementing GASB 34: What It Could Mean for You”
Aired on Wednesday, July 17, 2002

Special thanks to David Grubb, C.P.A., and William Mobbs, P.E. for supplying the answers to the questions posted during the live program.

1. Is there a web address for GASB 34?

You can find information at the GASB’s web site:
http://www.gasb.org/repmodel/index.html

The GASB web site also includes links to other web sites such as the APWA as well as various states and other governmental units that have made their GASB 34 implementation materials available to others.

2. You touched on the historical data for infrastructures. How do you appraise the value of road widening from the beginning of history?

GASB 34 only requires the capitalization of infrastructure assets put in place since June 30, 1980. Thus, governments are not required to consider costs incurred prior to that date. There is no prohibition against capitalizing these amounts, however, depending on the estimated useful life of the road, the asset may be significantly depreciated at the date of implementation of GASB 34.

When considering whether costs incurred in any given year should be capitalized (e.g., should a road resurfacing be considered part of the capitalized cost or a maintenance expense in that period), we need to look at the nature of the improvements. If the costs incurred increase the serviceability of the road (e.g., increases load capacity) or extends the original useful life, then the costs should be capitalized. All other costs are considered maintenance and should be expensed in that period.

3. What is the proper value for storm water infrastructure per mile in today’s market? Also, do you have a preferred source for the deflator index when valuing storm water infrastructure when the age is deemed to be several years old?

There are no standards in place for per mile costs for water or other types of infrastructure due to the variability of costs and climate conditions throughout the country. The best source for estimated costs would be from professional engineering or appraisal firms or trade associations.

There are many indexes available to use when estimating historical costs through deflation techniques. Cost indexes are maintained by the U.S. Department of Transportation’s Federal Highway Administration (www.fhwa.dot.gov), U.S. Congressional Budget Office (www.cbo.gov), many professional engineering firms as well as state and county engineering departments. American City and County magazine (www.americancityandcounty.com) also maintains cost indexes dating back to 1978.
4. What are the national standard values been use for water facilities & roads infrastructures?

I’m not sure what the question refers to, if it’s average values for unit replacement costs, Q/A # 3 applies. If it regards the average life for infrastructure, Q/A # 15 applies.

5. How did GASB provide long term maintenance funding? We all can show unfunded projects.

When governments elect to use the modified approach for reporting infrastructure assets, they are required to disclose:

- The established condition level for the assets as determined by the legislative body (e.g., 90% of roads will be maintained at good or better),
- The assessed condition of the infrastructure assets based on a full condition assessment performed at least every three years, and
- A comparison of the estimated and actual annual amounts needed to maintain and preserve the assets.

If the government were to not meet the established condition level, they would no longer be permitted to use the modified approach and thus would be required to use the traditional or depreciation approach. Thus, a government that chooses not to fund those projects necessary to meet the condition level established by the legislative body is prohibited from using the modified approach.

6. If a building is used to store Maintenance materials (salt, sand, etc) would it be considered Infrastructure?

Infrastructure assets are a subset of capital assets just as buildings and equipment are a subset of capital assets. GASB 34 places a great deal of emphasis specifically on infrastructure assets based on their significance and because most governments have never previously accounted for them. GASB 34 allows for special provisions for infrastructure assets including only reporting those assets placed in service since June 30, 1980 and allowing for use of the modified approach.

Infrastructure assets are typically analyzed on a network or subsystem basis. GASB 34 allows for assets that would not otherwise be reported as infrastructure, such as a building storing maintenance materials, to be included as part of the infrastructure network if they are considered to be an ancillary part of the network.

7. How would you characterize a municipal solid waste transfer station - a capital asset or an infrastructure asset?

A municipal solid waste transfer station would generally not be considered an infrastructure asset since there it would not be considered an ancillary part of an infrastructure network.

8. If people can decide on different subsystems then doesn't that defeat the continuity of reporting amount different governmental entities?

In a perfect world, all governments would report their infrastructure assets the same way to provide the maximum amount of comparability between governments. However, this is not possible because of the differing ways that governments manage and fund their infrastructure networks. Regardless of which model was
selected, certain governments would be required to change the way they manage their infrastructure assets solely to facilitate external financial reporting. GASB 34 will dramatically improve the comparability among governments and hopefully there will be additional changes in the future that will further the level of comparability.

9. What category would a wastewater treatment plant be classified under? Capital or infrastructure?

A wastewater treatment plant could be considered an ancillary part of a wastewater treatment infrastructure network. Likewise, a government could also account for the plant with other buildings. There would most likely not be a significant effect on the financial statements regardless of the option selected.

10. Why would a traffic signal be considered Infrastructure and not a turn lane?

Traffic signals are considered by most governments to be an ancillary part of the roadway infrastructure network and are not accounted for separately. Turn lanes would always be considered part of the roadway infrastructure network.

11. How does this effect water and sewer lines where many of these structures were installed 30-60 years ago? They are still assets and certainly depreciating. How are they to be reported?

The provision in GASB 34 to only capitalize infrastructure assets placed in service after June 30, 1980 applies only to general infrastructure assets. GASB 34 defines general infrastructure assets as those relating to the general government operations (such as roadways and storm drains) and does not apply to those utility assets accounted for in a full accrual enterprise fund. Enterprise funds have always reported infrastructure assets and GASB 34 has little effect on these funds.

Infrastructure assets reported for the first time as a result of GASB 34 are reported at net book value at the date of implementation, that is reported at the remaining un-depreciated value assuming the asset had always been depreciated.

For example, an asset with an original cost of $100,000 in 1972 and an estimated useful life of 50 years is being recorded for the first time as a result of GASB 34. The government would report the asset at its net book value of $40,000. Had the asset been depreciated since 1972, $60,000 of depreciation would have been taken by 2002 ($2,000 /year X 30 years). The asset would then be depreciated over its remaining 20 year life resulting in an annual depreciation charge of $2,000.

12. If you are using the modified approach for roads network, can you still include related buildings within that network? Do you depreciate those buildings or not?

Buildings that are an ancillary part of a road network can be considered part of the infrastructure asset. When the modified approach is used, the network is considered in its entirety and no depreciation would be taken on the roads or related buildings.

13. What happens with water mains and catch basins built prior to 1950's?

To the extent that these assets are considered to be general infrastructure assets (i.e., not included in an enterprise fund), the government has the option to exclude these assets from the financial statements. If the government chooses to include
them, they would be reported at their net book value at the date of implementation. Depending on the original cost of the asset and its estimated useful life, this amount may be very insignificant. This is one of the primary reasons why the GASB permits governments to exclude assets placed in service prior to June 30, 1980.

14. Under GASB 34, what can be assigned for useful life for sewer and water system pipelines?

The GASB does not prescribe estimated useful lives for infrastructure assets as a result of the significant differences in climate, building materials, use, etc. in the different regions of the county. The best source for guidance from estimated useful lives can be obtained from your state of county engineering department, your auditors or engineers, trade associations and other entities.

15. What happens when your infrastructure depreciates less than zero value?

It is not possible for assets to depreciate to less than zero. Assets are depreciated until the net book value reaches zero (a residual value if one has been established).

16. How is deferred maintenance /replacement accounted for?

Under the traditional or depreciation approach, costs incurred for maintenance and preservation are charged to expense during the year. Costs incurred for additions or improvements are capitalized.

Under the modified approach, costs incurred for maintenance are charged to expense during the year, whereas, costs incurred for preservation and additions and improvements are capitalized.

Preservation costs are those that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset.

17. We’ve been advised that the best approach is to start out using the depreciation method and then switch over to the modified approach for Departments like Public Works and Water Resources. Could you comment on this approach?

This approach would be advisable for those governments that do not currently have an asset management system in place or who have not yet completed at least one complete condition assessment (both are requirements to utilize the modified approach). In addition, given the costs associated with using the modified approach, governments may wish to transition to the modified approach in phases (the modified approach may be applied on a network by network or subsystem by subsystem basis).

18. What is the average level of capitalization threshold? And why doesn't GASB set that level for consistency from one community to another? David - City of Sheboygan Wisconsin

The level of capitalization will vary dramatically based on the size of the government and the type of asset under consideration. Many medium-sized governments use a capitalization threshold of $5,000 to $10,000. However, larger governments, including states and counties may use levels of $25,000 to $100,000 or higher. In addition, governments may use different capitalization thresholds.
based on the assets in question. For example, $5,000 may be used for equipment and computers and $25,000 may be used for roads and other infrastructure.

19. I have not seen our ability to maintain a constant value of roads or bridges. In fact we tend to get further behind as requirements for road & bridge upgrades become imperative.

One of the key elements of the modified approach is maintaining infrastructure at or above the condition level established by the governing body. If that level is not maintained, then the modified approach cannot be used and the traditional or depreciation method must be used.

20. Are Capital Improvements to an existing infrastructure considered a new asset or new maintenance under the modified approach?

See response to Question 17 above.

21. Do you foresee a standard software package being selected for an Asset Management System?

Frankly, I don’t foresee a standard software package being selected. There are so many packages offered and so many municipalities with differing financial situations and differing policy priorities that I doubt there could be a consensus.

However, I don’t think the standardization of software for asset management is essential, as all that would be accomplished is enabling a comparison between municipalities. This would have about the same result as comparing my state of health to yours – hurt feelings for one of us! What is more important, is that we know how we are doing with our own infrastructure health, whether we are improving or deteriorating, and have an asset management system that measures what is happening. When you're dieting, it's not so important whether you have a scale that records pounds or kilograms, but that you have a reliable, replicable scale rather than none at all. –Bill

22. Can you use a modified approach for infrastructure assets and a depreciation approach for capital assets or vice versa?

The modified approach may only be used for infrastructure assets; it is not available for other classes of capital assets such as buildings and equipment.

Governments may use a combination of the modified approach and the depreciation approach for infrastructure assets as long as it is applied on a network by network (or subsystem by subsystem) basis. For example, a government may use the modified approach for the road network but use the depreciation approach for the water and wastewater networks.

23. Does GASB 34 allow using the modified approach for one class of asset such as infrastructure and the depreciation approach for capital assets?

See response to Question 23 above.
24. For documentation of condition levels, is the APWA/Corp MicroPaver Program PCI Index a solid basis for roads and streets?

Yes, I think it is a good indicator of general condition. See also the answer to question #22.

25. If you have an established level in the modified approach, what happens when you have a natural disaster, and the level fails due to the condition?

The answer will depend on professional judgment. Government’s are required to maintain infrastructure at or above the established condition level based on the last three condition assessments. Therefore, in deciding whether the modified approach can still be used, the government and its auditor will need to evaluate not only the current condition level but also the government’s trend in preserving its infrastructure in past years.

26. As a non-public works person, where would I find replacement cost information for pavement, bridges, and sidewalks?

See response to Question 3.

27. Since there is so much latitude on reporting items, such as buildings, how can you get a true comparison with other governmental agencies?

See response to Question 9.

28. What happens when the Board lowers the goals? Can they still use the modified approach?

It is possible for a government to change the established condition level in future periods, however, whether the government can continue to use the modified approach is a matter of professional judgment. Generally accepted accounting principles (GAAP) contain specific rules regarding changes in accounting methods (which this would qualify as) and the government should consult with their auditor on the effect of such a change.

29. If you hire a consultant to perform the condition survey, wouldn't it be a good idea to have them develop the cost of the assets as well?

The performance of condition assessments and the development of costs could be performed by the same consultant assuming that they are qualified to perform both tasks. Each task has unique issues and the qualifications of the consultant should be evaluated before hiring.

30. For assets built internally, are we required to capitalize interest and labor costs?

For internally constructed assets used in a governmental activity (generally roads, storm water and other activities), labor costs (as well as other costs such as overhead) should be capitalized; interest costs, however, should not be capitalized.

For assets used in an enterprise activity (generally water and wastewater activities), both labor costs and interest costs should be capitalized.

31. Would you be able to give a couple of examples of agencies that are "advanced" in the GASB34 implementation?
Many states, counties and large cities have already implemented GASB 34 or will be doing so this year. Visit your state’s web site (or the GASB’s web site) for more information on the implementation plans instituted by these governments.

32. Are chip sealing, and slurry sealing efforts capitalized into the cost of roadways, or are they expensed as maintenance in the period incurred?

The answer depends on the achieved result of the chip sealing or slurry treatment – does it enable the originally projected life of the roadway pavement to be reached or does it extend its life beyond the original estimated life. From my experience, I regarded these two efforts as maintenance activities that enabled the original life estimate to be achieved, and therefore the costs of these activities would be expensed, whether the depreciation or modified approach was being used. – Bill

33. When a roadway, or other infrastructure asset is fully depreciated for financial statement purposes, but is still in service and currently being used?

When an infrastructure asset is placed in service, an estimate is made of the useful life of the asset. Theoretically, the asset should have a net book value of zero at the end of the period it is no longer in use. Practically speaking, this rarely happens since the useful life assigned is only an estimate and circumstances change over time. However, if a government consistently has assets that last significantly longer or shorter than the estimated useful lives, the method of estimating should be reexamined.

34. How can you account for an asset that may be damaged or represent a liability, i.e., a contaminated site?

Assets are defined as “probable future economic benefits obtained or controlled by an entity as a result of past transactions”. To the extent that a government controls a damaged asset that not only will not provide future economic benefit but will also result in the future outflows of cash (also as a result of past transactions), an asset should not be reported. Rather, the government should report a liability for the estimated amount of future cash flows expected to be paid.

The American Public Works Association endorses and supports the principles embodied in GASB 34, and urges local and state governments to adopt the “modified approach” to meeting GASB 34 requirements where feasible.

The APWA urges its members to develop closed, cooperative working relationships with appropriate financial and budget officials to develop reporting procedures that are useful management tools as well as effective reflections of their jurisdictions’ financial well being.