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## FEATURE: ACCOUNTING RULES

### THE REAL COST OF PUBLIC WORKS

Some are calling it the Accountants' Full Employment Act. To others, it's a long-overdue step toward sensible government finance. Either way, new rules adopted by the Governmental Accounting Standards Board will bring fundamental change in how state and local governments keep their books.

The rules approved in June by GASB, which sets accounting policy for state and local governments, push states and localities to begin including detailed information about the cost of infrastructure and its upkeep in comprehensive annual financial statements. Those that don't include such information won't win certified clean audits, jeopardizing their creditworthiness.

Under the new rules, government officials initially need to calculate the original cost of infrastructure constructed or rebuilt within the past 25 years--from roads to storm sewers, pumping stations to bridges. Governments can then either figure out how much the value of all that has slipped in the intervening years, or they can calculate what it costs to maintain that infrastructure on an annual basis. All new infrastructure, likewise, must either be depreciated or its upkeep accounted for.

The aim of the rules is to create annual financial statements that more accurately reflect the true fiscal health of governments, say GASB officials. Supporters argue that such information will also make government officials--and citizens, if they choose to pay attention--more aware of the value of the assets that government owns and what it costs to take care of them.

Given the significance of the change, it's not surprising that the rules have set the governmental finance community to some squabbling. GASB's supporters argue that the new rules add up to sound fiscal policy with the potential to inspire much more realistic overall government budgeting and financial planning. In the other camp are those who agree that it is important for governments to have a handle on capital assets, but who argue that reaching back in time to begin that exercise is a waste of time and money, and that all financial data related to capital assets belong in a separate document. "We have no disagreement that it's sensible to know whether government is properly dealing with infrastructure," says Jeffrey Esser, executive director of the Government Finance Officers Association. "The dispute is over whether the comprehensive annual financial report is the proper place to put that information."

As implementation kicks in, it is elected officials who could be in for the biggest shock, however. The rules have the potential to splash some serious red ink onto governments' books, which in turn might lead some state and local elected officials to balk. "The real test is going to be how much cities and counties comply with the rules," says a representative of a large association representing local elected

officials. "If they ignore them--particularly the large cities and counties--then I think GASB is going to have to take another look at this."

That may be wishful thinking. The people at GASB have put years into developing the rules, which means they're more than likely to stick to their guns.

--Jonathan Walters

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