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FEATURE: ACCOUNTING

THE GREAT GASB

States and localities now have to account for the real value of everything from city halls to drainage systems.

By Michele Mariani

William Raftery remembers the darkest times. Those would be the waning weeks of winter 1999, when it became clear to Wisconsin's controller that GASB 34 was not going to go away, that he, like hundreds of other state and local financial officers, would have to deal with the new accounting rule that asked governments to put an up-to-date value on infrastructure--bridges, jails, libraries, city halls and the like--built since 1980.

Implementation of the rule seemed formidable, even frightening, given the lack of additional resources available to fathom the complex guidelines and figure out the worth--the depreciated value, to be exact--of, say, a highway interchange built in 1984. Although dictates of the Governmental Accounting Standards Board--known informally by the way its acronym is pronounced, Gasby--don't carry the legal weight of a legislative mandate or gubernatorial edict, it was clear to Raftery that he and his office would have to comply with the first stages of GASB's Statement 34 by the time their fiscal year 2002 came to an end. Without compliance, the state couldn't earn clean audits of its Comprehensive Annual Financial Report. And a muddied CAFR could bring about a host of fiscal horrors.

But a funny thing has been happening on the way to the 2002 deadlines. Many states and localities are finding the valuation challenge not nearly as daunting as it first appeared.

There is, of course, more to Statement 34 than price tags. The rule calls for several accounting changes, including non-number statements that explain what the numbers mean. GASB's objective was to make state and local financial reports more valuable to readers. For many outside government in particular, the dozens of pages of seemingly endless numbers make it difficult to understand what their state, city or county is trying to convey through traditional financial reports. Looking at all the changes GASB 34 will bring to financial reporting, Roberta Reese, a GASB project manager sees Statement 34 as bringing governments closer to GASB's objective. "Someone who looks at financial statements is going to have a more complete picture of what government does," she says.

Not that it's been easy to get the valuation piece in place or that everyone will get there together. The 50 states, along with municipal governments with \$100 million or more in annual revenues, go first. They must implement the reporting changes, including infrastructure values, at the end of their 2002 fiscal year. Localities with lower revenue levels have another year or two leeway.

In general, what they will have to do is put a price tag on both

fixed assets and infrastructure. (In GASB-speak, infrastructure refers only to bridges, roads, parks and drainage systems.) While governments have long reported depreciated values for fixed assets that are part of self-replenishing proprietary funds, such as water and sewer systems, they now need to report depreciated values for assets that fall under the primary government. That includes reporting on buildings, bridges and roads. To do this, governments have to compile comprehensive inventories, backtrack to find original costs and find a way to depreciate those assets over time--and get it done within a few years.

Given the complexity and enormity of the effort, it shouldn't be surprising that when GASB first came out with the rule, fear and trembling ran through the ranks of financial officers. GASB 34 sessions at national conferences overflowed with angry and confused participants. Government officials from large states to small cities protested that they didn't have enough time, staff or money to complete the task. Controllers feared what is, to them, the worst outcome: a qualified opinion on the annual financial audit.

Now that the jurisdictions that have to meet the 2002 deadline are into the process, there's a more sanguine air. "Two years ago, people were asking, 'When are you going to repeal this thing?'" GASB's Reese says. "Now they're a lot more practical, and there's less resistance."

It may be that finance officers changed their tune when they found some of the infrastructure reporting to be much simpler than they expected. That's due in part to the comprehensive records most transportation departments keep to fulfill reporting requirements linked to federal transportation funds. "Everybody has been pleasantly surprised that the records are as good as they are," says Relmond Van Daniker, executive director of the National Association of State Auditors, Comptrollers and Treasurers. "Fears haven't been borne out, and infrastructure has not become nearly the problem people thought it would be."

GASB also helped by offering an alternative for road and bridge reporting. Rather than insist that governments use the same straight-line depreciation method for infrastructure as they use for other fixed assets, Statement 34 allows for a "modified approach," an approach that calls for maintenance of infrastructure to be reported as an expense. Governments must meet three criteria to use this method: They must commit to maintaining the assets at a predetermined level, estimate the amount necessary to fund that maintenance level and conduct condition assessments at least every three years. More than half of the states are opting for the modified approach.

Wisconsin is among them. Bridges and roads were already on an assessment cycle, and to William Raftery and his staff, it seemed to be the most sensible format. "That's the way most DOTs manage highways," Raftery says. "That information is much more valuable than depreciation."

Some governments took the depreciation route because, for them, it was an easier-than-expected task. Portland, Oregon, for instance, already had depreciation costs built into its fixed-asset computer system. Once a useful life span is entered into the computer's system--15 years for a road, or 40 years for a building, for example--the

computer automatically depreciates the asset's value. "I don't understand why people are up in arms," says Lena Ellis, the city's accounting manager, of the initial furor over the GASB depreciation rule. "That's our least concern. If that's all we had to do, we'd be elated."

For governments without built-in depreciation data, the experience has been more trying. Florida's computer system didn't include depreciation costs--it was 20 years old and hadn't been improved in about 15. So it took state workers months to enter the data to generate depreciated values. "Property was our number one headache, without a doubt," says Molly Merry, the state's financial administrator for financial reporting.

Oklahoma, which managed to beat the deadline and implement GASB 34 with its fiscal year 2001 CAFR, also chose to report its infrastructure using depreciation. For Oklahoma, the modified approach was too big a hurdle. "We didn't have the detail," says Steve Funck, a financial reporting supervisor. "We couldn't do it if we wanted to."

But there is another factor for states to consider when making a decision about which approach to use. Condition assessment data from the modified approach can be used for political advantage, such as convincing a legislature of the need for repair dollars. And that may, in fact, be one of the more positive fallouts from GASB 34. Departments in charge of, say, highways and bridges can, says Jay Fountain, assistant director of research for GASB, "get their story out there. They can get more funding for an adequate level of maintenance."

It is possible to switch to the modified approach after beginning with straight-line depreciation, and big-picture watchers expect to see more governments sign on as years pass. Coincidentally, just as GASB released Statement 34, the Federal Highway Administration opened its Office of Asset Management, which helps states develop systematic management methods for their highways. That dovetails nicely with the changes in infrastructure reporting, particularly with amassing the information to explain the data associated with GASB 34.

Luckily, GASB has built breathing room into compliance deadlines: In stage one, governments must report the value of all assets under construction or completed by the beginning of their implementation year. They then have an additional four years to report on assets built as far back as 1980. Assets constructed before 1980 won't have to be reported at all, although GASB has encouraged governments to stretch their reporting back as far as their records will allow. So, as interesting as it would be to find out the value of the Brooklyn Bridge, New York City won't be required to troll back to 1883 to come up with the number.

There are some numbers that localities have to come up with that may be difficult to determine, however. Some jurisdictions, especially those experiencing fast growth, are stymied by how to book the value of donated assets, such as streets built by developers. Orange County, Florida, which grew 32 percent in the 1990s, hasn't systematically tracked the value of donated streets and drainage systems.

The city of Alexandria, Virginia, faced a similar issue but had a built-in solution. Most of the 223-year-old city was built well before 1980--the heart of the city is called "Old Town." But the streets running beyond Old Town are under great growth pressure. Fortunately, developers are required to post bonds with the city before building, even for assets they donate. The city simply looked up those records, and there were its values.

New York City managed to become the largest government yet to implement GASB 34 with its fiscal year 2001 CAFR, despite the hardship of having to continue doing the work immediately after the trauma of September 11. The city was set on 2001 implementation, however, knowing that in 2002 it would have to deal with a new mayor, new comptroller and new outside auditors. The city's process moved relatively smoothly, even as it booked more than \$5 billion in assets. The final CAFR is "more complex, if anything," according to Warren Ruppel, assistant comptroller for accounting.

Complexity wasn't what GASB had in mind with Statement 34. Its hope was that the new reporting guidelines--particularly the inclusion of capital costs--would provide the general public with a clearer idea of the full costs of providing services.

Will GASB 34 achieve that? Some finance officers remain unsure that GASB's vision will be recognized. "This is change, and change is difficult. Whether people understand better, they'll have to tell us," says Linda Steele, city comptroller in Mobile, Alabama. "From our perspective, it's just change." Looking forward to her own city's September 30 implementation date, she says that "so far it's not been too bad, but when we get down to the wire, it may get a little painful."

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