January 17, 2025

Governmental Accounting Standards Board
801 Main Avenue
Norwalk, CT 06856

RE: Comments on GASB Project No. 3-43P, Preliminary Views – *Infrastructure Assets*

The Financial Management Standards Board (FMSB) of the AGA appreciates the opportunity to provide comments on the Governmental Accounting Standards Board's proposed standards.

Our comments on each of the Board's preliminary views are as follows:

Chapter 2, paragraph 2
In general, we agree with the definition. A definition of infrastructure is necessary, since different reporting and disclosure requirements are attached to the infrastructure classification. We would further prefer that original definitions be located in the body of the standards rather than as a footnote.

Some members were not sure why "providing a particular type of public service" was part of the definition. One concern with this aspect of the definition is that it may imply the need to artificially disaggregate aspects of a network that may be considered a different type of public service. For example, sidewalks, bike lanes, street lighting or stormwater systems could be considered different public services than streets, although they are constructed and maintained as an integrated network. To that point, we noted that "water and sewer systems" was listed as an example, which called into question whether these would be considered the same or different public services. Another member suggested that providing a particular type of public service might be better described as one of several "factors" to consider when distinguishing individual network assets for reporting purposes, rather than part of the definition of infrastructure.

Still other members expressed the view that there may not be a perfectly precise definition for infrastructure and encouraged the list of examples to be as comprehensive and precise as possible in order to help with consistent interpretation of the definition.

Chapter 3, paragraph 2
We agree with retaining these extant requirements, for the same reasons as articulated in the preliminary views document.

Chapter 4, paragraph 2
In general, we agree with requiring periodic review and adjustment of estimated useful lives, as this would be consistent with the nature of estimates. We also agree it would be appropriate to more clearly state estimation requirements in Category A, consistent with GASB literature for other types of estimates.

However, we noticed that "periodic" was not defined and would encourage the Board to consider more precise requirements, consistent with GASB literature for other types of estimates. We are concerned that in absence of this, the current condition may persist since it would be no more auditable than extant Category B requirements. We are also concerned there may be a new risk of financial statement manipulation if governments could wait to make adjustments to infrastructure in order to offset or smooth other financial events. Requirements could be consistent with asset retirement obligations (i.e. annual), or with requirements for the modified approach (i.e. 3 years), or with leases (i.e. based on triggering events), or could be based on a policy requirement.

Finally, we noted that salvage value is now included. However, we question the need for this as we have not observed salvage values for infrastructure in practice and would expect that any salvage values would be trivial.

Chapter 4, paragraph 6
Our members had mixed views on this requirement. On one hand, componentization is one of the root causes of practice issues observed with infrastructure. However, this requirement will certainly introduce more complexity. Ultimately, our group was most concerned with how a requirement such as this would be written in order to achieve consistent and effective implementation in practice.

With this in mind, we suggest the Board consider:

- The potential need for prospective application, as retrospective componentization may not be cost effective or even feasible.
- Including an adjective such as "substantially different" or explicit practical expedient to indicate that only meaningful differences in useful life require componentization.
- Requiring policies that define componentization for each type of infrastructure asset reported by the government, as this would be necessary in order to support consistent accounting over time.
- Implementation guidance that describes the interaction of componentization decisions on determinations of impairment or classification of expenditures as capitalizable improvements or maintenance expenses.
- Illustrations or implementation guidance that describes potential components for common types of infrastructure in order to support decision making and encourage consistency in practice.

Chapter 5, paragraph 3
We agree with retaining extant requirements, but dropping the reference to an asset management system. How a government achieves this objective is not as important as stating the objective itself.

Chapter 5, paragraph 6
We agree with retaining these extant requirements.

Chapter 5, paragraph 12
Our members had mixed views on this requirement. We recognize this is an extant requirement, and agree with the sentiment that infrastructure assets should be depreciated if the government is not actually maintaining assets at a minimum condition level.

However, we also recognize that maintaining infrastructure assets is a long-term endeavor and can be subject to longer timeframes for financing and executing projects and responding to falling condition levels, or to events such as annexations, acquisitions or natural disasters. This may mean that a government could drop below the condition level on a temporary basis, with the timing of this assessment information arriving too late for the government to reasonably react to raise it and re-assess prior to issuance of financial statements. We also observe that transitioning from the modified approach to depreciating assets can be costly and time consuming. This makes the condition assessment a high leverage point and thus increases the risk of manipulation. This is particularly of concern since there are not requirements or factors for setting or changing condition levels, nor are there detailed requirements on performing the condition assessment like there are in GASB literature for other types of estimates. This significantly impairs the auditability of the government's condition level, justifications for changing the conditional level, methodology for assessments, and justifications for changing methodologies.

For these reasons, we suggest the Board consider whether it might be more appropriate to disallow modified approach reporting only after not meeting condition requirements in *two consecutive* assessments. This would allow governments a reasonable opportunity to cure conditions before they are required to undertake costly and time-consuming accounting changes. We would point out that reporting condition assessments at less than the minimum level would still be fair presentation that meets the objective of accountability and provides users with decision-useful information. Switching to a depreciation basis will not improve the comparability of the statements for observers of that government. In contrast, a continued use of the modified approach – at least through the next assessment period – will allow for a determination of whether the asset condition level has risen or not. The Board might further consider requiring disclosure of the government's plan to return to acceptable condition levels in such situations.

Chapter 6, paragraph 5
We agree with continuing to report the same extant disclosures. See responses below for our comments on the specific exceptions.

Chapter 6, paragraph 7
In general, we are supportive of the idea to report infrastructure by major class. However, we are concerned with the potential cost of disaggregating infrastructure compared to benefits for users.

With regard to benefits, we anticipate the Board will need to provide guidance on defining major classes, otherwise it may not result in sufficiently comparable information to be useful. For example, it is unclear whether major class is expected to be determined by function (such as transportation or communications, as might be implied from the Preliminary Views) or by type of asset (such as pipes, pumps, roads or sidewalks, which might better match policies on componentization and useful lives).

However, in providing this guidance, we are most concerned about avoiding a disclosure requirement that would require disaggregation of amounts differently than the underlying accounting. See also our response to the proposed definition of infrastructure assets in Chapter 2, paragraph 2.

Chapter 6, paragraph 9
We agree with eliminating this disclosure, for the same reasons as articulated in the preliminary views document.

Chapter 6, paragraph 12
We agree with eliminating this disclosure, since we view it as no longer essential.

Chapter 6, paragraph 14
We agree with eliminating this disclosure, as we did not identify any decision-useful information from it.

Chapter 6, paragraph 16
We agree.

Chapter 6, paragraph 19
We were mostly supportive of this proposal, although some members questioned what user decisions would be made with this information that cannot already be made from extant disclosure – that is, by evaluating the average remaining useful life by major class.

In any case, if the purpose of this new information is to indicate the extent of infrastructure assets that will need to be replaced in the near term, we would question whether 80% is an appropriate threshold to achieve this purpose, given that infrastructure assets are expected to have very long useful lives. For example, if an asset has a 60-year useful life, at 80% it would imply that the asset would be replaced in 12 years – and even longer for assets with 80 or 100-year useful lives. In evaluating the appropriateness of the threshold compared to user needs, the Board may also wish to consider basing the threshold on the years of useful life remaining, as an alternative to a threshold based on percentage depreciated.

Chapter 6, paragraph 22
We are concerned that this proposed disclosure may not be cost-beneficial. In paragraph 24, the Board stated its belief that the disclosure would not require significant costs to implement because amounts are

already recognized as expenses and are budgeted separately. However, we would point out that governments generally do not separately budget or account for such costs by asset class or in a way that distinguishes between costs for capital assets and costs for infrastructure. We are concerned that this level of disaggregation of maintenance expenses may require significant changes to the level of detail at which such costs are accounted, including the need to perform detailed cost allocations on contracts, staffing, cost centers or projects that previously did not need any form of allocation or disaggregation.

Moreover, we question the decision-usefulness of the proposed disclosure – that is, what specific question would this information be able to unambiguously answer. Some members further suggested that sufficient information is already available through analysis of capital project funds.

Chapter 6, paragraph 25
We agree. However, in order to result in consistent and useful information, we anticipate that the Board will need to provide clarification of the required policy elements that should be included in this disclosure.

Chapter 7, paragraph 5
We disagree. We believe this would be costly to prepare and difficult to audit.

Specifically, preparing such an estimate would essentially require all governments to perform similar work to the modified approach, and to do so across all major classes. We question the reliability and auditability of these estimates, unless the GASB intends to provide detailed guidance on methodology and require use of specialists, similar to pension or OPEB estimates. Moreover, we question the decision-usefulness of such information, as we are unclear how spending more or less than the government expected on maintenance can be unambiguously interpreted. Differences could be due to cost over-runs, cost efficiencies, fluctuations in market prices, timing differences when comparing annualized estimates to actual project sequencing, or simply due to the wide margins of error that might be inherent in such estimates. Ultimately, such a comparison does not indicate whether spending was effective, as would be indicated by condition assessment information in the modified approach.

Chapter 7, paragraph 7
We agree that extant disclosure requirements for the modified approach should be continued.

Chapter 7, paragraph 11
We agree that extant disclosure requirements for the modified approach should be continued.

While we recognize the Board's intention to be consistent with time periods used for RSI schedules, we continue to suggest that the Board establish a separate project to re-examine the appropriate time frame for providing historical context in all RSI and ACFR schedules. Specifically, some members believe 10 years to be an excessive length of time, creating a reporting burden that yields minimal decision-usefulness.

Chapter 7, paragraph 15
We agree that providing notes to RSI would be helpful to explain why changes in the data have occurred in order to better understand trends.

However, as discussed in our comment on paragraph 11, we are somewhat concerned with the cost-benefit for providing such notes over a 10-year period. Reporting burden for RSI schedules has already increased due to GASB 100 requirements to correct historical errors that may go back further than a government's records retention period. Requirements to describe changes affecting trends over the course of the last 10 years further add to burden. Again, some members question whether such old information is truly essential to placing the basic financial statements and notes in a historical context if that historical context is so different as to require explanatory notes. These members also raise the question of whether it would be more appropriate for users to refer to prior financial statements - with their full context of disclosures - rather than rely on abbreviated notes. That said, we think such questions might best be addressed in a separate project re-examining the essentiality of 10-year trends.

Chapter 7, paragraph 18
We agree with eliminating this statement.

Other Comments
Standards for capital assets and for infrastructure should be aligned to the greatest extent possible. Infrastructure assets are described as a type of capital asset in GASB Codification section 1400 and many of the same issues being addressed for infrastructure in the preliminary views are also relevant for capital assets, such as the need for periodic review of useful lives, componentization, and disclosure of changes in capitalization policy. We are concerned that because the scope of the project is limited to infrastructure, requirements and disclosures may become unnecessarily divergent between capital assets and infrastructure. This is of particular concern because the definition of infrastructure is not so concrete as to ensure consistent identification of an asset as an infrastructure or capital asset. For example, one government may consider certain assets to be a component of a network, whereas another government may report the same assets as capital assets separate from the network. This creates risks not only for consistency and reliability of financial reporting, but also that preparers might be incentivized in their policies and classification decisions based on differences in reporting and disclosure requirements. We therefore encourage the board to consider either expanding the project to include appropriate parallel changes for all capital assets, or to plan a similar project for capital assets that will be developed concurrently. This is particularly important if preparers will need to evaluate and change accounting systems and policies, as it may be helpful for these efforts to be inclusive of all capital assets or at least accomplished in light of any similar changes needed for other types of capital assets.

Sincerely,

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Chair, Financial Management Standards Board

AGA
Financial Management Standards Board

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