

Overview Presentation

1. What is Asset Management?

(And how does it relate to GASB 34 ?)

2. Why Asset Management?

(What are the benefits of implementing an asset management system?)

Session 1

What is Asset Management ?

(And how does it relate to GASB 34 ?)

Introduction

- State and local governments spend \$140-\$150 billion a year in construction, improvement, and rehabilitation of the public's capital assets, including:
 - ✓ Highways
 - ✓ Bridges
 - ✓ Sewers
 - ✓ Water systems

Introduction

- Improving techniques for management of taxpayer assets could facilitate:
 - ✓ Reduced spending on assets that are functionally obsolete or beyond repair
 - ✓ Guiding more funding toward assets that:
 - Have a higher probability of delivering intended organizational results
 - Have a high payoff if invested in now
 - May be overlooked using traditional criteria

What is Asset Management ?

- A systematic process of maintaining, upgrading, and operating physical assets
 - ✓ Enhances knowledge of capital assets and their respective values
 - ✓ Establishes standard processes for investment decision-making

What is an Asset Management System?

- A systems framework that provides a measure of organizational performance and ties it to internal short- and long-range planning
 - ✓ Links business, engineering, economic theory to an organization's mission
 - ✓ Provides tools for organized, logical approach to decisions

Purpose of Asset Management

- Guides *development* of infrastructure assets toward optimal benefit at minimal cost
 - ✓ There are trade-offs
 - How “benefit” is defined to begin with
 - How much an organization is able to spend
 - ✓ Organizational mission is central to defining the benefits to be pursued
 - Ultimately determined by the voting public

What Is GASB?

- Governmental Accounting Standards Board
 - ✓ Referred to as "GASB"
 - ✓ Recognized need to improve the way governments manage public assets
 - ✓ Issued Statement No. 34
 - Referred to as "GASB 34"
 - Reporting standards that support more of a "market driven" approach to government fiscal management

What Is GASB?

- GASB establishes Generally Accepted Accounting Principles (GAAP)
 - ✓ Standards used by government entities to report financial issues to external stakeholders
 - ✓ Consistent standards by which investors, creditors, and others measure:
 - Fiscal operating performance
 - Solvency
 - Creditworthiness

What is GASB 34 ?

➤ Entitled:

“Basic Financial Statements-and
Management’s Discussion and Analysis-for
State and Local Governments”

- ✓ 15 Years in development
- ✓ Unanimously approved in June 1999
- ✓ The most sweeping changes in GAAP for state and local governments since 1934

What is GASB 34 ?

- Defines new standards for governments to use in *external* fiscal reporting
 - ✓ Operating performance
 - ✓ Public infrastructure assets
 - ✓ Solvency

What is GASB 34 ?

- Most significant component requires reporting of values and costs relating to infrastructure and other long-term assets
 - ✓ This was not previously required for any public agencies

New Requirements of GASB 34

- Other components of GASB 34 reporting standards include:
 - ✓ Management's Discussion and Analysis
 - ✓ Revised Supplemental Information
 - ✓ New and Revised Basic Financial Statements
- The call for an Asset Management System is most directly tied to the new "Basic Financial Statements"

Management's Discussion and Analysis

- Summary disclosure of facts, decisions or conditions not reflected in the financial statements
 - ✓ Helps clarify changes in financial position
 - ✓ Unusual activities and events that occurred during reporting period
 - ✓ Known issues that are expected to have effect on future periods
- Was not required before GASB 34

New and Revised Basic Financial Statements

- New GASB 34 standards modify format of traditional fund-based statements
 - ✓ Presents entity as single, unified operation
 - Rather than aggregation of individual funds
 - ✓ Breaks out according to functional roles of major governmental and enterprise funds
 - Transportation
 - Public safety
 - Social services

New and Revised Basic Financial Statements



- New statements provide expanded focus on long-term and operational accountability
- Meant to assist with budget performance analysis and decision making
- Incorporates accrual accounting

New and Revised Basic Financial Statements

- GASB 34 introduces two new common financial statements to the reporting model
 - ✓ Statement of activities
 - ✓ Statement of net assets
- Both support development of an asset management system

Statement of Activities

- Provides indication of resources needed each period to service discrete functions
 - ✓ Roads
 - ✓ Social Services
 - ✓ Others
- Demonstrates comparative operating performance of each primary function
 - ✓ Between years
 - ✓ Between organizations

Statement of Activities

- Similar to a business income statement
 - ✓ Identifies primary components of revenues and costs incurred *during the reporting period*
- For first time, GASB 34 requires indication of the costs of operating capital assets
 - ✓ Depreciation
 - Rate at which assets were “used up”
 - ✓ Modified Approach
 - Cost of maintaining existing condition

Statement of Net Assets

- Similar to a business balance sheet
 - ✓ Net asset value similar to owner's equity in private business
 - Difference between assets and liabilities
 - ✓ Indicates accumulated value an entity controls at end of reporting period

Statement of Net Assets

- Capitalized values indicate structure that is in place to service operations
- Net assets provide indication of
 - ✓ Ability of an organization to pay its debts
 - Includes prior obligations and other constraints that have already been placed against assets
 - ✓ Long-term sustainability
 - Existing funding and other items that could (in theory) be liquidated to support operations

Statement of Net Assets

- GASB 34 requires first time reporting of the value of long-term assets and liabilities
 - ✓ Including infrastructure
 - Roads
 - Bridges
 - Others
 - ✓ Most significant feature of the new standards
 - ✓ Promotes Asset Management

Most Significant Changes for Transportation Entities

- Biggest change will result from requirement to report major capital assets and long-term liabilities
 - ✓ Based on accrual accounting methods
 - Recognize expense over asset's life
- Traditionally, cost was expensed during year of construction or purchase
 - ✓ Based on cash or *modified* accrual accounting

Most Significant Changes for Transportation Entities

- Long-term debt must now be reported regardless of when it matures
 - ✓ Previously reported only short-term liabilities due or payable within the near-term
 - One or two years

Why GASB 34 ?

- Intended to provide a more thorough understanding of government stewardship
 - ✓ More closely parallels private-sector fiscal reporting
 - ✓ More comprehensively includes the full costs of providing services
 - More inclusive of long-term costs

Why GASB 34 ?

- Intended to make financial statements more accurate, easier to understand, and more useful to *external* constituencies, including citizens
 - ✓ Meant to address informational needs of:
 - Investors and creditors
 - Legislative and oversight bodies
 - Citizens

Why GASB 34 ?

- Intended to allow readers to objectively assess the performance of individual governments
 - ✓ Standards allow more universal comparisons
 - ✓ Assists readers in determining compliance with finance-related laws, rules and regulations

Why GASB 34 ?

- Allows readers to assess long-term progress toward social and political commitments within the realm of existing economic conditions
 - ✓ How sustainable programs are
 - ✓ Degree of financial constraint being placed on future revenues
 - Allows readers to determine if officials are not reinvesting enough in capital assets

GAAP Compliance

- Government organizations that indicate compliance with GAAP
 - ✓ Must follow standards defined by GASB
 - Third-party audits validate compliance *with standards*
 - They do not validate organizational effectiveness
 - × That is left to the judgement of the reader

Enforcement of GASB 34

- GASB does NOT have enforcement authority
 - ✓ However compliance with GAAP is helpful (often necessary) to secure credit and other financing (e.g. to issue bonds)
 - Creditors and taxpayers need some way of measuring solvency of government investments
 - Financial statements provide indication of how likely governments are to meet their obligations

Who Will GASB 34 Affect?

- Applies to all state and local government entities that claim to follow GAAP:
 - ✓ General purpose governments
 - City, County, and State
 - ✓ Public school districts
 - ✓ Public benefit corporations/authorities
 - ✓ Public employee retirement systems
 - ✓ Public utilities
 - ✓ Public hospitals/healthcare providers
 - ✓ Public colleges and universities (GASB 35)

Who Will GASB 34 Affect?

- The content of most financial statements are typically set by the entity itself or some governing body (not GASB)
- Independent auditing firms review financial records and:
 - ✓ Issue “opinions” that statements follow GAAP
 - ✓ Indicate that statements “appear” to be accurate

Who Will GASB 34 Affect ?

- Some state and local governments must follow GAAP in order to obtain "clean" audit opinion of financial statements
 - ✓ For example, Iowa state law requires annual or biennial audits for certain government entities, particularly counties
 - Conducted by independent auditing firm

Who Will GASB 34 Affect ?

- GASB 34 also indirectly affects entities NOT required to follow GAAP
 - ✓ Provides a benchmark for credit rating, loan financing, or bonds issue terms
 - ✓ Some federal funding requires single audit reports
 - ✓ There may be some outside pressure for entities to follow GAAP even if not explicitly required

Who Will GASB 34 Affect First?

- New standards to be phased in based on annual revenues for first fiscal year ending after:
 - ✓ June 15, 2001
 - Large (\$100 million or more)
 - ✓ June 15, 2002
 - Medium-sized (\$10 to \$100 million)
 - ✓ June 15, 2003
 - Small (Under \$10 million)

Who Will GASB 34 Affect ?

- GASB 34 could be considered an implied directive for organizations not specifically required to follow GAAP
- It could be termed an unfunded mandate for those that are
- It is likely that the larger entities will shape the direction of implementation
 - ✓ Earlier required compliance
 - ✓ Provide models for smaller entities to follow

Asset Management and GASB 34

- Although inter-related, Asset Management and GASB 34 are two separate topics
 - ✓ GASB 34 focuses more on *external* reporting requirements
 - ✓ Asset Management is more significantly an *internal* management tool
 - ✓ Asset Management is ONE approach that can be used to comply with GASB 34

Elements of Asset Management

- Integrated asset databases
 - ✓ Centralized information
 - Ensures data integrity
 - Enhances organizational accessibility and compatibility

Elements of Asset Management

- Asset monitoring and evaluation
 - ✓ Asset inventories *and valuations*
 - Fixed Assets
 - Rolling Assets
 - Other Equipment
 - ✓ Condition assessments
 - ✓ Prediction and trend indicators
 - ✓ Linkages to strategic performance measures

Elements of Asset Management

- Engineering/economic optimization tools
 - ✓ Cost estimates of system options and resulting impacts
 - ✓ Tabular manipulation of system data
 - ✓ Spatial display of data (i.e. mapping using GIS)
 - ✓ Relational databases and geographic information systems

Elements of Asset Management

- Internal strategic investment analysis
 - ✓ Systems that support resource allocation decisions
 - ✓ Risk management

Attributes of Asset Management

- Links technical analysis, budgeting, and decision-making
 - ✓ Life-cycle cost analysis with all its components
 - Inventory information
 - Condition measures
 - Modeling/analytical capabilities
 - ✓ Flexible
 - Readily adaptable to change

Examples of Asset Management

➤ Virginia DOT

- ✓ Decided to shut down a highway for 17 days rather than cause detour for 2.5 years
 - Contrary to a previously accepted “rule of thumb” that discouraged highway shutdowns
 - Asset management saved the traveling public time, money, and aggravation in the long-run
- ✓ Emphasized “system costs” instead of “project costs”
- ✓ Economically quantified decision

Examples of Asset Management

- The telecommunications industry following deregulation
 - ✓ Asset management systems used to shift focus from regulatory requirements to serving customers
 - ✓ Inventories provide the what, where, use, and condition of specific assets
 - Used to target replacement and growth
 - Networking configurations that expand revenue generating services are targeted for investment

Examples of Asset Management

- The freight railroad industry
 - ✓ Carefully examines the productivity of various capital assets:
 - Track segments
 - Locomotives
 - Rail cars
 - ✓ Targets investment toward the most productive assets to get the highest return on capital

Examples of Asset Management

➤ Wal-Mart Corporation

- ✓ Uses Asset Management systems to optimize \$15 billion in real estate assets
- ✓ Helps determine lease or buy decisions
- ✓ Helps the company divest itself of unprofitable assets

Comparisons to the Private Sector

- Private sector use of Asset Management is inherently different
- Public sector data needs are substantially more complex
 - ✓ Goals are not as straightforward as in the private sector
 - ✓ Sheer volume and diverse nature of assets involved
 - ✓ Lack of consistent data may be a problem
 - Example: pavement condition data is not uniform within states

Comparisons to the Private Sector

- State DOTs with state-of-the-art pavement and bridge management systems are comparable to leaders in private industry
 - ✓ Technologically and managerially
 - Ability to assemble the required data
 - High-speed, automated, condition-survey and data-collection equipment

Comparisons to the Private Sector

- Public sector faces some inherent limitations in using Asset Management
 - ✓ Lack of alternate markets for public infrastructure
 - Highways and bridges cannot be sold
 - ✓ Lack of a "market price"
 - Difficult to measure internal investment risk
 - Difficult to define required rate of return
 - ✓ Liquidation or abandonment may not be an available strategy

Complying With GASB 34 Will Require Partnerships



- Most government officials associated with budgeting and financial reporting will be somehow involved with implementing GASB 34
 - ✓ Policy-makers
 - ✓ Administrators/Managers/Department heads
 - ✓ Financial officers/Auditors
 - ✓ Engineers/Public Works Managers
 - ✓ Others