

# GASB Statement 34: On-ramp to transportation asset management or detour to business as usual?

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WHEN PUBLISHED in 1999, Governmental Accounting Standards Board Statement 34 (GASB 34) represented the most significant change to Generally Accepted Accounting Practice (GAAP) since accounting standards were established in 1934. Especially important was a new requirement that government agencies capitalize infrastructure assets in their annual comprehensive financial reports; that is, they must include historical value.

Organizations with more than \$100 million in annual revenue should have completed their first financial reports under this new requirement on July 1, 2002. The deadline for smaller organizations takes place over the next two years.

To determine how GASB 34 requirements are being implemented, CTRE recently surveyed several large midwestern cities about their methods for capitalizing infrastructure assets. The results were not what we would have expected when GASB 34 was published.

None of the cities surveyed uses the asset management approach (called the "modified approach" in GASB 34).

### Two ways to capitalize assets

GASB 34 allows agencies to value their infrastructure using either of two approaches.

One is conventional depreciation, whereby the original cost of constructing an asset is the asset's historical value, that value is depreciated over the asset's estimated life, and depreciation becomes an annual expense. Preservation activities that add to the life of the asset are applied to its capitalized cost.

The other method, the modified approach, supports asset preservation. Agencies identify a minimum condition for each asset and manage the asset to maintain or exceed the minimum condition. Costs to maintain and preserve assets become an annual expense.

The modified approach requires the use of management systems (pavement, bridge, signs, etc.) to ensure the condition standard is met.

The difference between these two approaches is that

- the depreciation method depreciates assets over time and

- the modified approach preserves asset value.

Differences in accounting for capital, preservation, and maintenance costs under each approach are shown in the table below.

	Depreciation Approach	Modified Approach
Maintenance costs	Expense	Expense
Preservation costs	Capitalize	Expense
Additions and improvements costs	Capitalize	Capitalize

### Public works support

The modified approach was included in GASB 34 due to the encouragement of the public works community, including lobbying by AASHTO. Their rationale was that public works professionals seek to preserve their infrastructure assets, and the modified approach simply represents good management practice.

When GASB 34 was adopted, most public works professional organizations encouraged use of the modified approach; the APWA officially endorsed it.

### Survey approach

To understand how widely the modified approach is being used, we interviewed financial managers at nine large cities that have produced GASB 34-compliant financial reports. These cities are in Iowa, Minnesota, Nebraska, and South Dakota.

To receive consistent information, we developed a brief series of questions. The questions involved determining the following:

1. What approach was used to capitalize assets (depreciation or modified approach)?
2. What role did asset management systems play in the development of GASB 34-compliant financial reports?
3. What value was derived from compiling GASB 34-compliant annual financial reports?

### Findings

1. None of the cities used the modified approach, even though public works managers generally supported its use. Financial managers, who take the lead in compiling GASB-compliant reports, generally preferred conventional depreciation.

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2. Management systems, like pavement management systems, were generally used to provide data to support capitalization of assets for depreciation-based reports.

However, capital improvement planning documents and other financial records were generally the primary resource for identifying historical costs and historical activities.

3. When asked about the value of creating a GASB 34-compliant financial report, the majority of financial managers viewed capitalizing infrastructure assets as a bookkeeping exercise of dubious value.

A few managers thought it might help future budgeting for capital improvements and preservation. By knowing the magnitude of asset depreciation, cities might seek to fund costs of depreciation.

Some financial managers even noted that interest in asset preservation was helping promote the concept of asset management.

Still, there seemed to be little interest in eventually migrating to a preservation approach for financial reporting.

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### Reconsidering GASB 34

Like the APWA and AASHTO, we at CTRE have strongly promoted the modified approach. As engineers and planners, we believe that the modified approach is the technically correct way to manage infrastructure assets. We believe that asset management provides value and improves decision making.

Initially we thought that an accounting standard would be an on-ramp to asset management. Instead it seems to be no more than an interesting detour.

### Bottom line

GASB 34 is an accounting standard, and the purpose of accounting standards is to create uniform financial reports so that creditors and the public can understand the fiscal operating performance, solvency, and credit-worthiness of an agency.

Local governments shouldn't adopt asset management systems because of an accounting standard. They should adopt them because such systems improve the return the public receives from its investment in public infrastructure. •

## Overview of methods for controlling erosion and storm water

THE DEADLINE for public agencies to comply with Phase II of the Environmental Protection Agency (EPA) storm water regulations is March 10, 2003. (See the September–October 2002 issue of *Technology News*.)

One tool for meeting the requirements is preventing or controlling erosion on roadside slopes and ditches.

### Erosion control methods

Agencies can stabilize soil (*stabilization methods*) or build structures (*structural methods*) in slopes and ditches to help control erosion and runoff. Both methods can be *temporary* or *permanent*.

Temporary measures are used on highly erodible slopes until vegetative growth is sufficient to hold soil in place. Permanent stabilization methods are used to protect erosion-prone slopes after construction, when no further disturbances are expected.

### Temporary stabilization methods

- *Mulching*. Various organic or synthetic materials are applied to the slope. They may also help protect and stimulate growing vegetation.
- *Erosion control blankets*. Synthetic or biodegradable blankets are placed on slopes for several months until vegetation can grow. Blanket types are chosen based on the topography of the slope. They include wood fiber, straw/coconut, straw, and bonded fiber blankets.
- *Temporary seeding*. Rapid-growing annual grasses are seeded into slopes to provide a root base to hold the soil in place during and after construction.

### Permanent stabilization methods

- *Turf reinforcement mats (TRMs)*. TRMs are placed on slopes similar to erosion control blankets. However, TRMs combine vegetation and synthetic materials to form a strong, permanent mat.
- *Permanent seeding*. Perennial grasses are also seeded into slopes. Although they develop more slowly than annual grasses, they can withstand cooler seasons. Worker can also plant legumes, which produce their own nitrogen and grow even in less fertile soil. Two commonly used legumes that prosper in Iowa are Crown vetch and *Sericea lespedeza*.
- *Sodding*. Sod is placed on slopes and provides immediate turf stability and establishes a strong root system in a short amount of time.
- *Topsoiling*. Previously used or organically enriched soil is placed over exposed subsoil to encourage the growth of vegetation. It may be followed by permanent seeding with grasses or other perennials.

### Temporary structural methods

- *Check dams*. Check dams are placed in ditches or waterways and prevent soil erosion by reducing the speed of water flow. These dams may consist of straw bales or riprap and can reduce the water's effect on the soil.
- *Slope drain*. Slope drains are flexible or rigid conduits that transport runoff water down exposed slopes. These drains can be used during construction, until permanent drain structures are installed.

*The deadline for complying with EPA Phase II storm water regulations is March 10, 2003.*

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