

GASB#34 / Asset Management

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Today's Presentation:

- **Sell:**
 - "Why Worst First Is Worst"
- **Define:**
 - "What is GASB#34 ?
Why Should I Care?"
- **Implement:**
 - "Asset Management"

Why “Worst First” is “Worst”

Comments on how to build an effective public works infrastructure program

Worst First occurs because:

- Easy to sell - lots of roads are in poor shape
- Funding / budgets tilt toward new const.
- No Ribbon Cutting
- Deferred maintenance



But “Worst First”:

- Costs more - 6X more
- Drags the whole system down
- Is difficult to recover from
- Is a difficult concept to counter

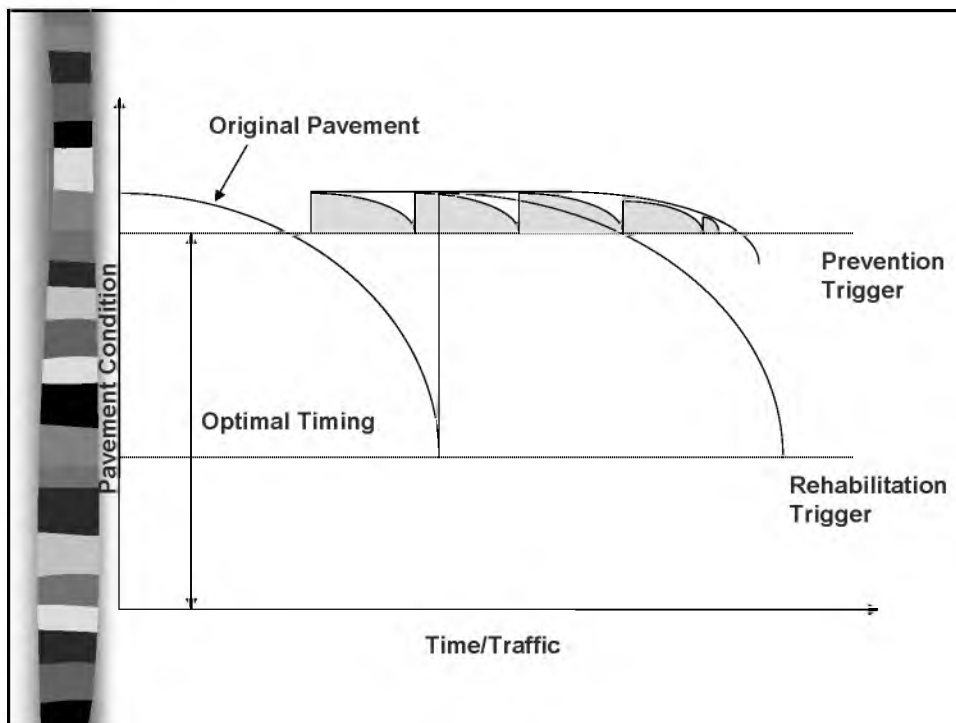


Maintenance:

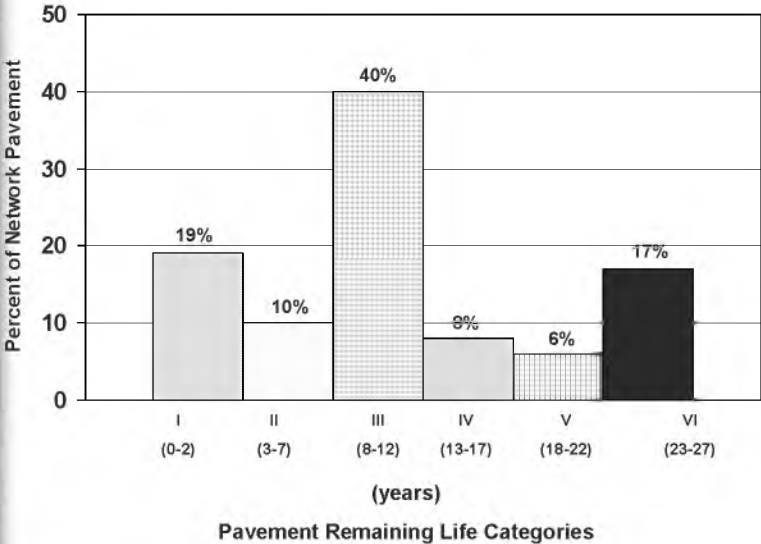
- Routine
- Reactive
- Preservation / Preventive

Build:

- Replace / Reconstruct
(improve structural condition)
- Expand / New Facilities
(add new capacity)

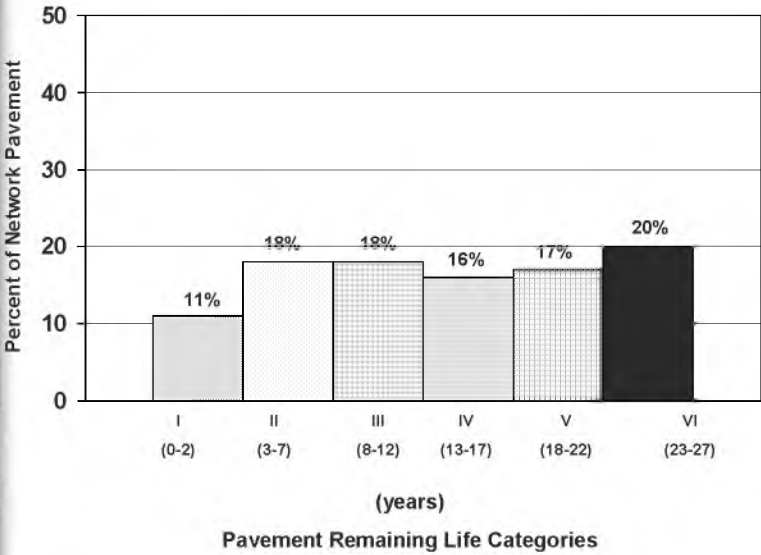


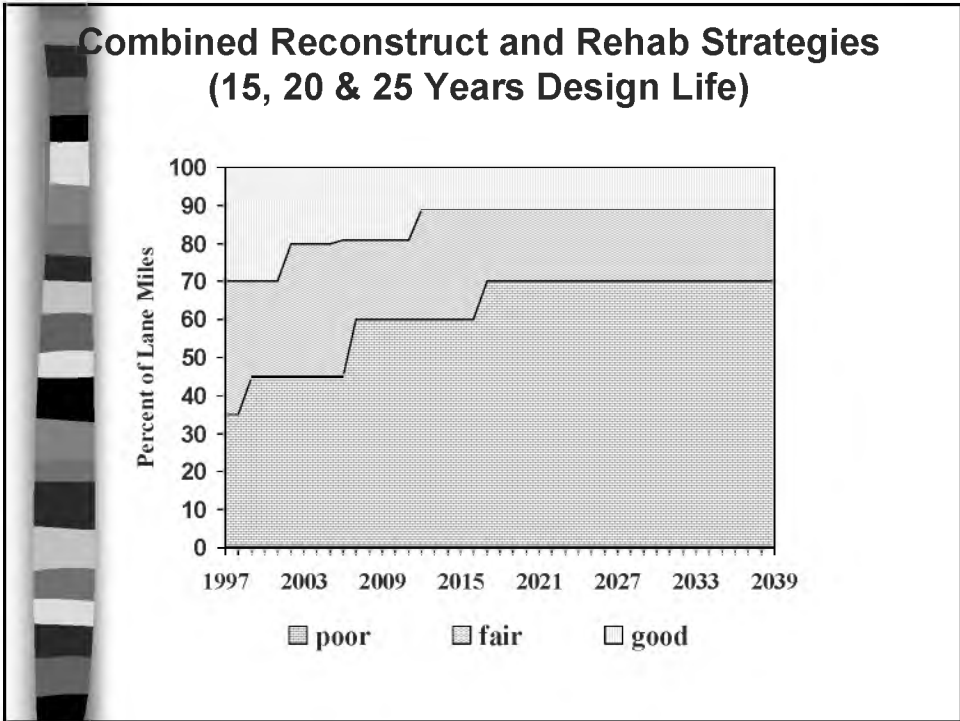
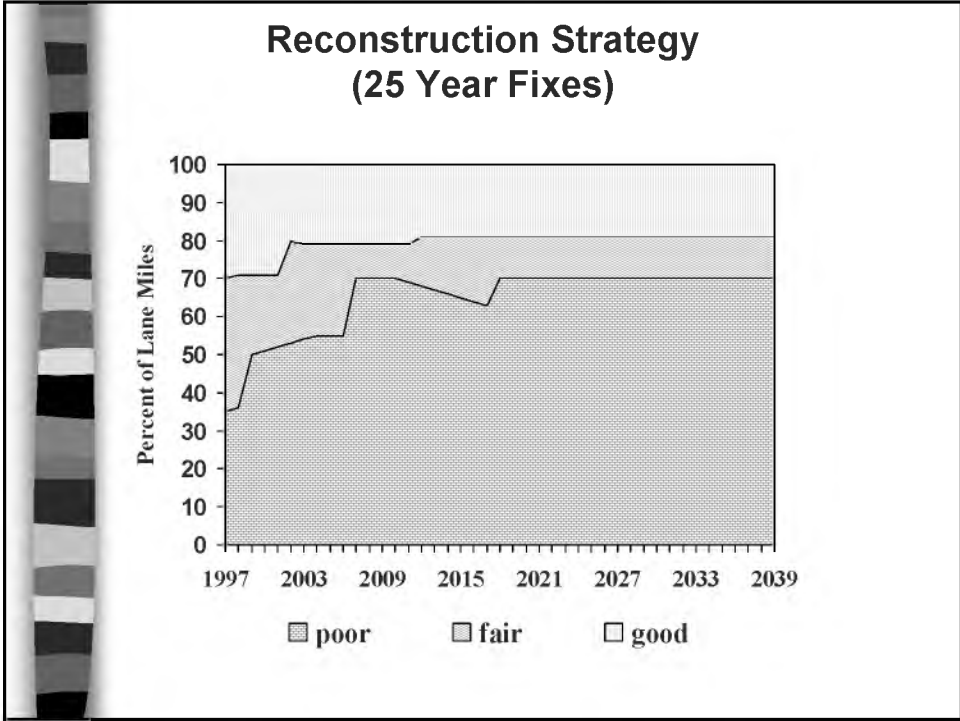
Current Condition



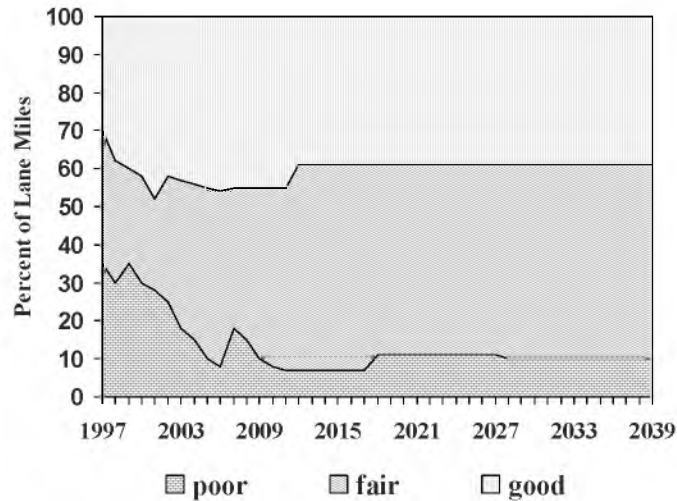
From Michigan DOT -- Galehouse

Ideal Condition





Combined Reconstruct, Rehab, and Preventive Maintenance Strategies



Keys to Success (from MiDOT/GaDOT):

- Promote Preventive Maintenance Philosophy
- Fix pavements BEFORE they are broken-select good pavements for treatment
- Budget & fund Preventive maintenance
- Shorten the time between assessment and maintenance
- Build them excellent the first time

GASB #34

What is it?

Why should I care?

GASB

- Government Accounting Standards Board
- NOT a government agency
- Sets standards for States and Local entities
- Basis of audit opinions

#34

- Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments
- June 1999
- Changed reporting from Optional to Required

GASB #34 Objective:

- To make government accounting more like private sector accounting
 - dump truck example
- Defined Infrastructure Assets
 - roads
 - bridges
 - water and sewer systems
 - drainage systems
 - dams, tunnels, ...



Timing phase-in schedule

- Phase I: >\$100 million (6-15-01)
- Phase II: \$10 to \$100 million (6-15-02)
- Phase III: < \$10 million (6-15-03)

In a Nutshell



Governments generally don't depreciate their assets and the private sector does, but now the rules have changed !!



Asset Valuation GASB 34

Requirements:

- state and local agencies to include the value of physical assets in their financial statements
- value based on depreciated historical cost, or historical cost without depreciation if the agency can demonstrate that they:
 - have an inventory of assets
 - perform condition assessment at least every 3 years
 - have spent funds sufficient to maintain the infrastructure assets at an established level of condition.



GASB #34 gives 2 options

- 1) Depreciate
- 2) Modified Approach



Asset Valuation

GASB 34

Issues

- Confusion between economic and financial value
- Implications for policy making, funding etc
- Cost to implement



Illustration

- Replacement cost highway - \$1m/mile
- Historical cost
 - 15 year old highway
 - CCI 1983 / CCI 1998 = 0.6903
 - => \$0.69 m/mile
- Book value
 - Expected life 25 years
 - Depreciation = 60% (straight line)
 - => \$0.27m/mile



GASB #34 recognizes that factors vary among jurisdictions and among infrastructure assets

- Document: complete condition assessment every 3 years
- Results provide assurances that assets are being preserved at the level established



The key to meeting GASB #34 using the Modified Approach is having an “Asset Management System”

Asset Management

“Don’t want to not do it”

Karen Miller

Boone County Commissioner

Definition

- Asset Management is the **systematic** process of maintaining, upgrading, and operating physical assets **cost-effectively**.
- Asset Management is a tool for decision making.
- Asset Management creates a framework for long and short term planning.

Goals of Asset Management

- Enhance knowledge
 - of inventory
 - of value
- Instill sense of “ownership” at all levels
- Data becomes a “corporate asset”
- Improve Decision-making
 - Build credibility
- Think globally, but act locally

Goals (cont'd)

- Opportunities to evaluate
 - standards
 - policies
 - customer service levels
 - practices
- Use life-cycle costs
- Reduce tort liability



Process

- Inventory Assets
- Condition Data: Collection & Analysis
- Performance Modeling
- Scenario Generation / Mgt. Alternatives
- Decision Analysis
- Management Reporting



Results

- Strategic perspective
- Teamwork instead of turf battles
- Better Communications
 - inside & outside
- Ties resource allocations with savings from replacements
- Integrates across systems



Why Asset Management

- Common Vision
- Performance Measures become important
- Results linked to Performance
- Accessible at many organization levels
- Links budget and program
- OPTIMIZE SYSTEM LEVEL IMPROVEMENTS (evaluate trade-offs)



This is what Asset Management
and GASB #34 are all about!!

SO

What do we do?



It's Time to Start

- Understand
- Organize
- Plan
- Start (June 2002 / 2003 is not far away)



Getting Started

- Inventory: roads, streets, alleys, bridges, sidewalks, pvmt. Markings, signs, signals
 - common reference system (GIS)
- Condition Assessment: good-fair-poor-bad
- Performance Criteria: tort liability, percentage of system in good service, customers needs, scheduled maintenance
- Management alternatives – w/ Budget



GASB #34 & Asset Mgmt.

Summary:

- Large and long-term commitment at all levels of government
- Preservation versus Deferred Maintenance
- Long-term Solutions versus Short-term Fixes
- Potential for better decisions
- www.rutgers.edu/accounting/raw/gasb



Thank You

Charlie Nemmers