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

Pavement Remaining Life Categories
From Michigan DOT – Galehouse

Ideal Condition

Pavement Remaining Life Categories
Combined Reconstruct and Rehab Strategies
(15, 20 & 25 Years Design Life)
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