

# NCHRP Project 19-04

## A Review of DOT Compliance with GASB 34 Requirements

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# GASB – What is it?

- **Government Accounting Standards Board**
- **Affiliated with FASB**
- **Independent & Non Profit**
- **Represents**
  - **State and Local CFOs**
  - **Investment Community**
- **Compliance with Standards is Voluntary – BUT Bond Rating may be Affected**



# Statement 34

- In June, 1999 GASB issued Statement 34

*“..the most significant change to occur in the history of governmental financial reporting.”* – GASB Chairman Tom Allen

**Most Important Change:**

**New Requirement to Report All Capital Assets, Including Infrastructure**



# Statement 34

- **Affects State and Local Governments Including All DOTs & Public Works Agencies**
- **Infrastructure Valuation Included in Certified Financial Statements**





# Statement 34

- **Initial Reporting of Assets**
  - **Total Cost of Construction, Additions and Improvements Since 1980**
  - **Averaged Cost Estimates May Be Substituted For Actual Historical Cost**



# Statement 34

- **Following Initial Capitalization, Infrastructure Agency Faces a Fundamental Choice:**
  - **Depreciation of the Reported Cost Using Any Established Method**
  - **Apply the Modified Approach – Record Current Preservation Costs While *Using* an Asset Management System**



# Depreciation Approach: Less Effort/Less Value

- **An Accounting Approach**
- **Not Based on Actual Conditions**
- **Consistent with Non-Infrastructure Assets**
- **Of Little Value For Managing Assets**
- **Led AASHTO and APWA to Request Modified Approach - Asset Management**



# Modified Approach: More Effort/More Value

- **Waives Requirement for Depreciation**
- **Based Upon Asset Management Principles**
- **Uses Condition Assessment Data**
- **Agency Sets Performance Standards**
- **Maintenance Budgets Related to Needs and Performance Standards**
- **Reports Actual Outlays & Condition**



# Required of the Modified Approach

- 1) Three Most Recent Condition Assessments**
  - Must Indicate Assets are being Maintained at or Above Condition Level Established by the Agency**



# Condition Rating of State Highway System

(sample table #1)

	% of lane miles – excellent or good		
	2002	2001	2000
<b>Princ. Arterial</b>	<b>93.2%</b>	<b>91.5%</b>	<b>92.0%</b>
<b>Arterial</b>	<b>85.2%</b>	<b>81.6%</b>	<b>84.3%</b>
<b>Secondary</b>	<b>77.2%</b>	<b>74.5%</b>	<b>76.8%</b>
<b>Overall System</b>	<b>85.2%</b>	<b>82.5%</b>	<b>84.4%</b>

# Required of the Modified Approach (cont'd)

**2) Actual Expenditures to Maintain Assets For Past Five Reporting Periods . . . Compared to Target Expenditures for Established Condition**



# Comparison of Preservation Expenditures (\$000's)

(sample table #2)

		2002	2001	2000	1999	1998
Principal Arterial	Needed	2,476	2,342	2,558	2,401	2,145
	Actual	2,601	2,552	2,432	2,279	2,271
Arterial	Needed	1,485	1,405	1,535	1,441	1,287
	Actual	1,560	1,531	1,459	1,367	1,362
Secondary	Needed	990	937	1,023	960	858
	Actual	1,040	1,021	972	911	908
Overall System	Needed	4,951	4,684	5,116	4,802	4,290
	Actual	5,201	5,104	4,863	4,557	4,541
	Difference	250	420	(253)	(245)	251





## *Effective Dates*

<b>Total Revenue</b>	<b>GASB 34 Overall</b>	<b>Retroactive Reporting</b>
<b>\$100 million +</b>	<b>June 15, 2001</b>	<b>June 15, 2005</b>
<b>\$10 million – \$100 million</b>	<b>June 15, 2002</b>	<b>June 15, 2006</b>
<b>&lt;\$10 million</b>	<b>June 15, 2003</b>	<b>n.a.</b>

# Study Background

- **Study commissioned by NCHRP to “catalogue and analyze the approaches taken by AASHTO member departments to comply with the requirements of GASB 34”**
- **Consultant team**
  - **PBConsult - prime contractor**
  - **PricewaterhouseCoopers LLP - accounting**
  - **NuStats – survey administration**
  - **Cambridge Systematics – technical review**



# Study Status

- **Final report has been completed and submitted to NCHRP**
- **Now undergoing internal NCHRP review; likely to be released this spring**



# Survey Methodology

- **Electronic survey distributed to 52 State DOTs – 50 responded**
- **Followed up survey with case study interviews with six selected State DOTs**
  - **Selections based upon survey responses – noteworthy approaches likely to be of interest to other DOTs**

# Case Study States

- **Michigan – modified approach, AASHTO Region 3, asset management leader**
- **South Carolina – depreciation approach, AASHTO Region 2, change in approach anticipated**
- **Tennessee – modified approach, AASHTO Region 2, GASB 34 champion**
- **Texas – combination approach, AASHTO Region 4, major system modifications**
- **Vermont – depreciation approach, AASHTO Region 1, interest in using GASB 34 information**
- **Washington – modified approach, AASHTO Region 4, emphasis on condition assessment**



# Summary of Findings (1)

- Higher percentage of States selected depreciation approach than previously indicated, probably due to difficulties in implementing modified approach
- Underlying consideration in selection of approach was potential impact on department funding
- States selecting depreciation approach had wide range of reasons, mostly reasons for not selecting modified approach
- States selecting modified approach cited useful information and Department philosophy
- A majority of states (75-80%) believed that the GASB 34 exercise generated useful information



## Summary of Findings (2)

- In general, more certainty of purpose on mechanics of reporting requirements than on asset management aspects
- For example, difficulty reported in estimating expenditures necessary to achieve targeted conditions
- Number of asset classes varied widely; from one up to ten – perhaps more than GASB anticipated?
- Implementation costs were reasonable - generally under \$500K for those states reporting an estimate

## Summary of Findings (3)

- **Modified approach states more likely to start the process earlier**
- **Modified approach states more likely to believe that exercise improved communications**
- **Great diversity of approach in calculating historical cost, cost allocation among capital, preservation and maintenance categories, and capitalization procedures**
- **Many states expressed interest in receiving survey findings**





# Survey Analysis

- **Section 1: Overview Questions**
- **Section 2: Depreciation**
- **Section 3: Modified Approach**
- **Section 4: Organization and Decision Making**
- **Section 5: Costing Methodology**
- **Section 6: Condition Assessment**

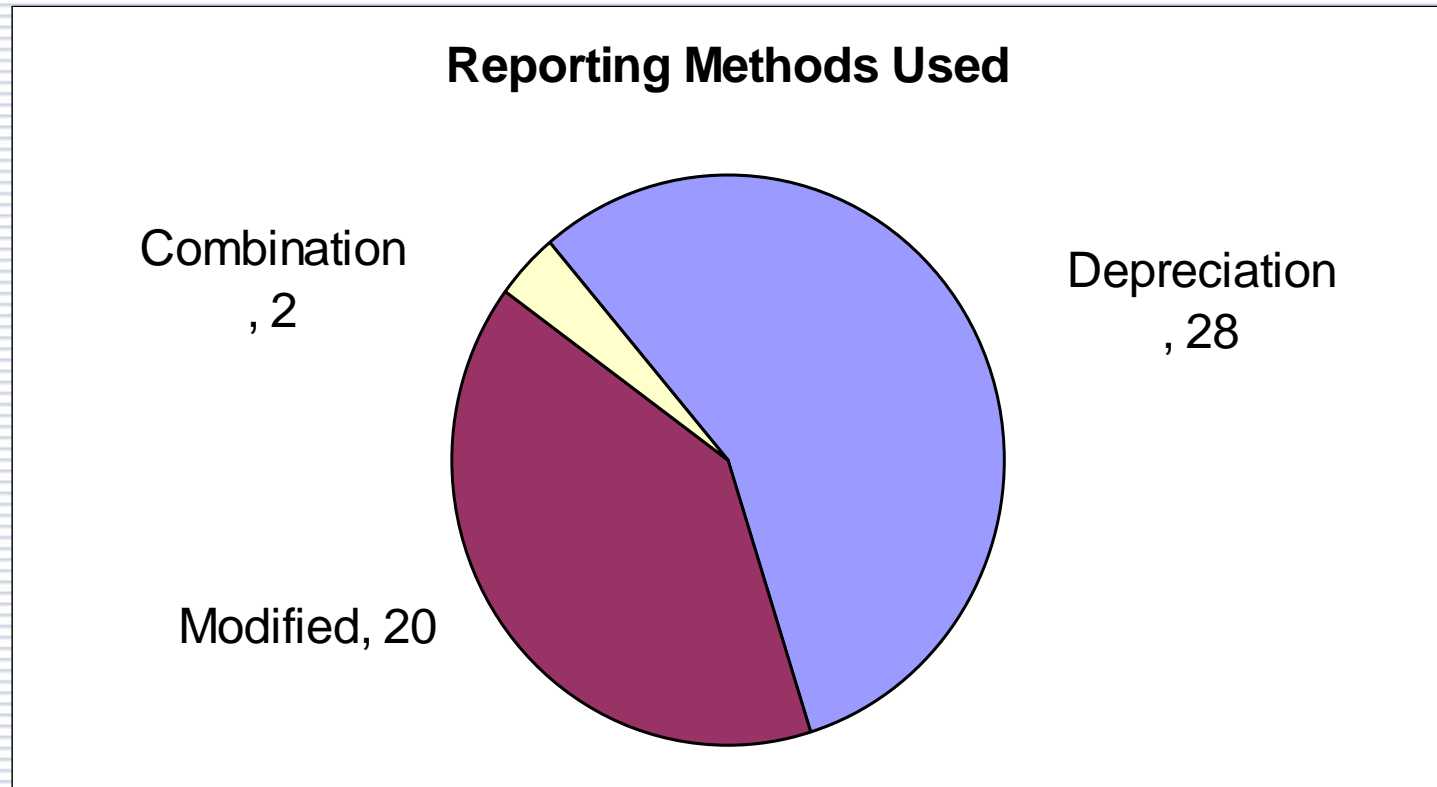


# Section 1: Overview Questions

- **Reporting Methods Used**
- **DOT Opinions on Usefulness and Ease of Implementation**
- **Challenging Issues**
- **Asset Ownership and Transfer Issues**
- **Automated Accounting System Changes**

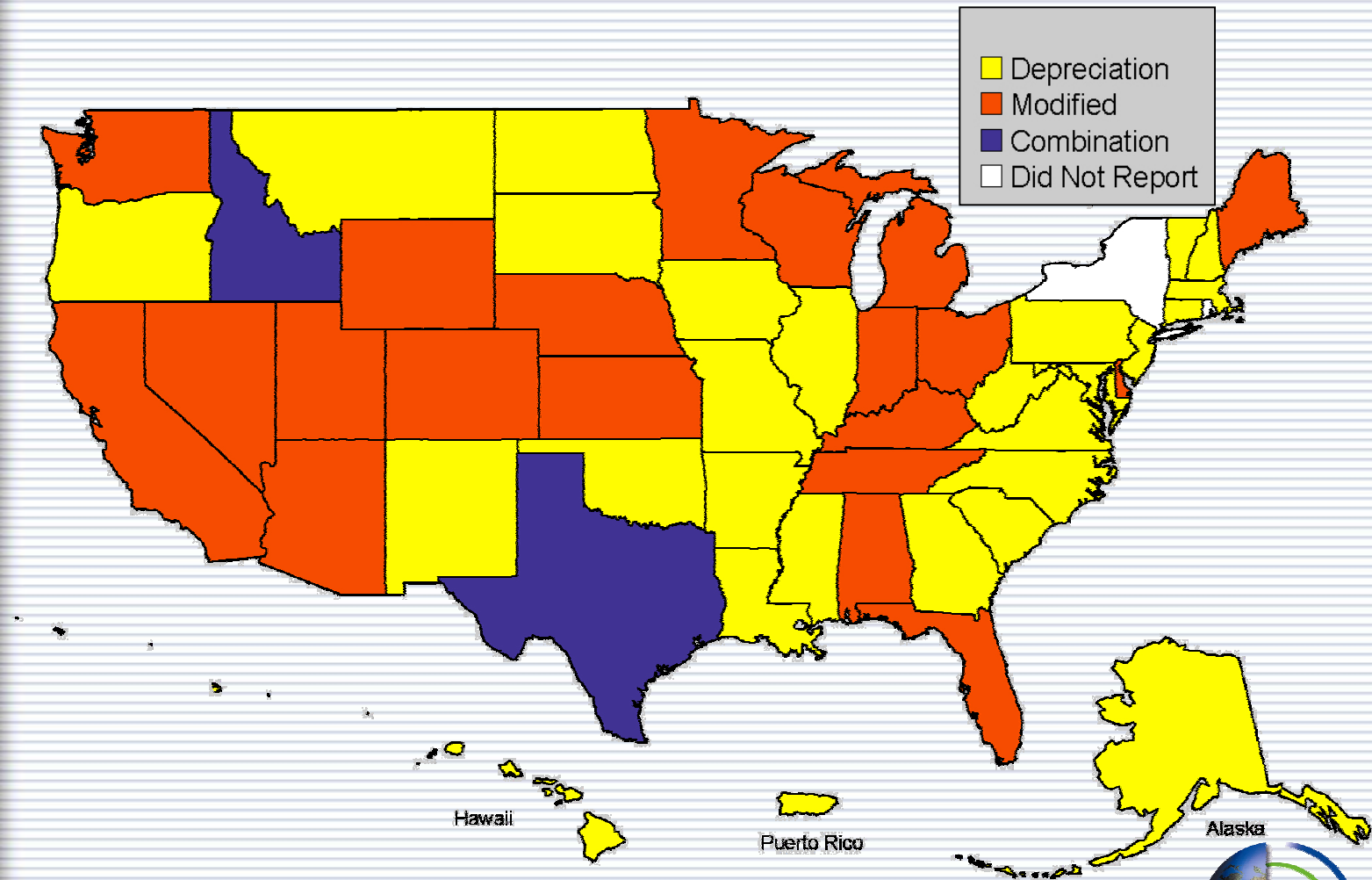


# Reporting Methods Used



- The basic approach selected (28 principally used depreciation, 20 principally used modified, 2 used a combination) reflects a shift toward depreciation, compared with previous surveys in which states indicated which approach they intended to use

# Reporting Methods Used



# End of Fiscal Year

- **48 Departments:**                      **June 30**
- **Texas:**                                      **August 31**
- **Alabama:**                                  **September 30**
- **Michigan:**                                 **September 30**
- **New York:**                                 **March 31**

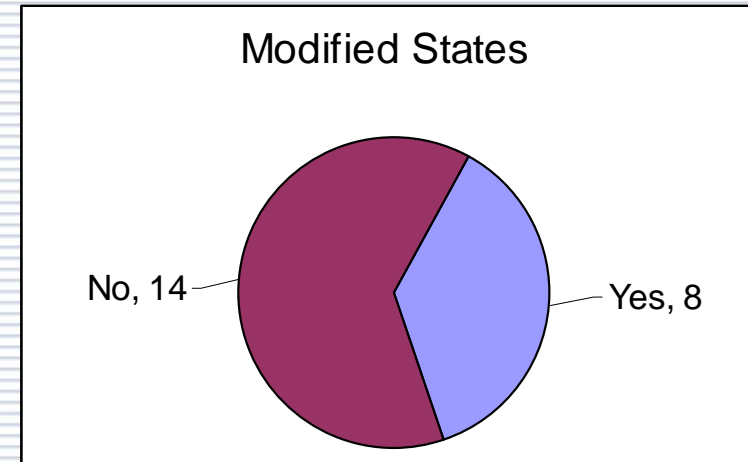
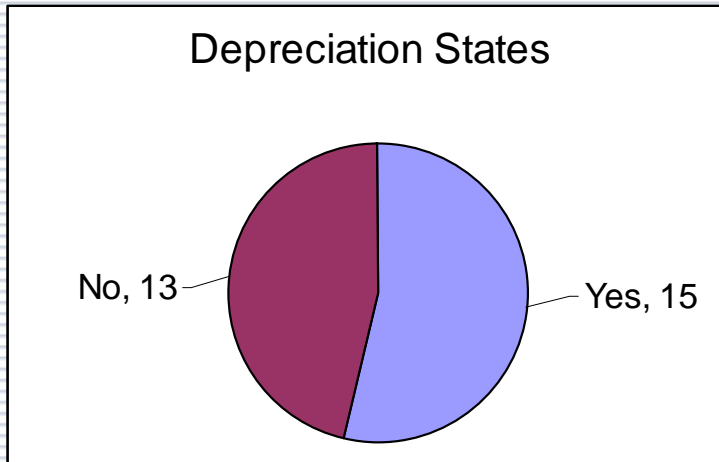


# Combined Approach DOTs

- **Texas**
  - **Depreciation: Bridges, Buildings, Rail Systems, Equipment**
  - **Modified: Entire Road Network**
- **Idaho**
  - **Depreciation: Bridges, Rest Area Buildings**
  - **Modified: Roads**

**Note: Both of these states are treated as Modified states in statistical analysis**

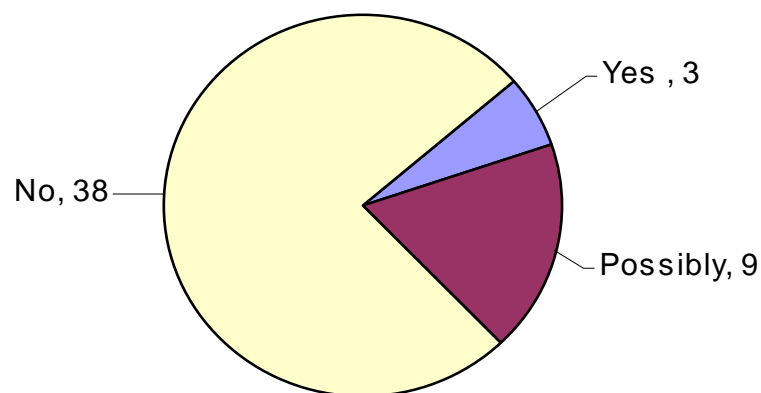
# Were alternate approaches seriously considered?



- **13 states chose the depreciation approach without considering different perspectives on the reporting method**
- **14 states chose the modified approach without considering different perspectives on the reporting method**

# Changing Approach

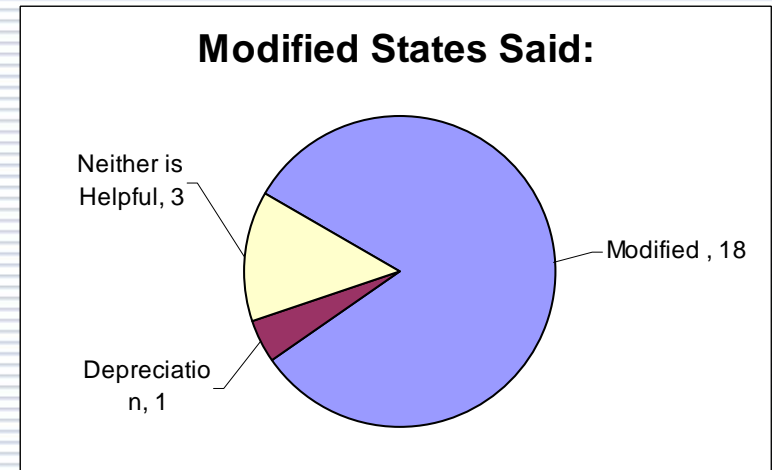
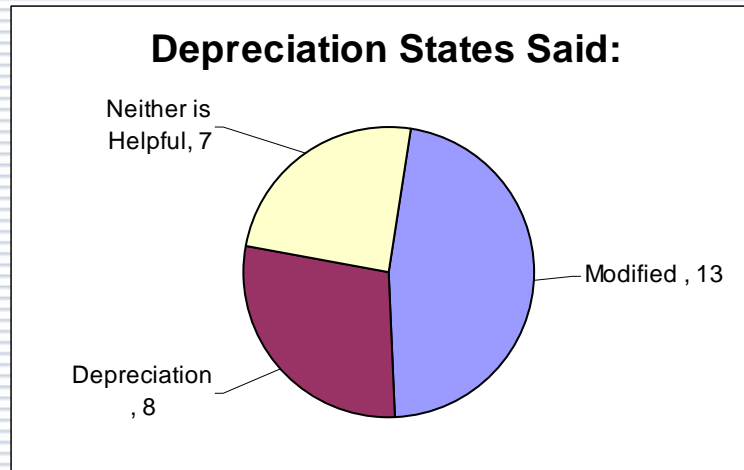
Do you expect to change your approach to reporting infrastructure assets within the next 5 years?



- Of the 12 states indicating a potential change in reporting methods, 10 are depreciation states
- That would seem to suggest that several states began with modified intentions, ran into difficulties for whatever reason and shifted to depreciation for this first year, but still may return to the original intention
- That interpretation tends to be confirmed by the individual comments of the 12

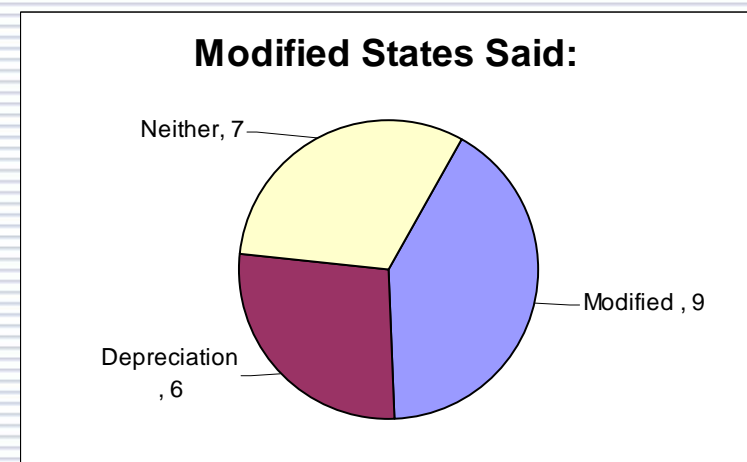
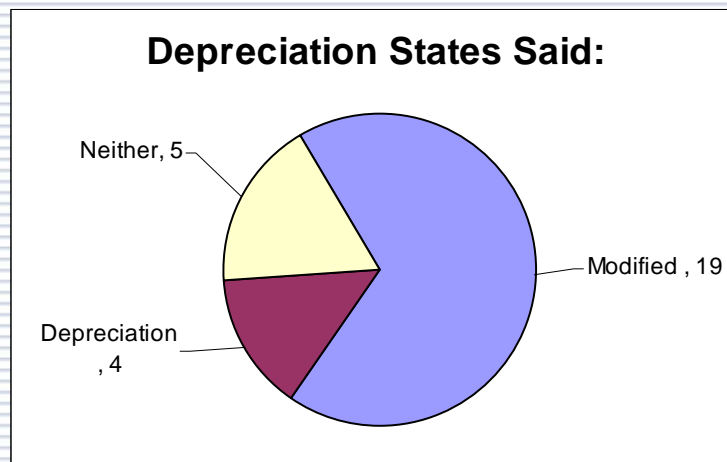


# Which method is more helpful for making finance and management decisions?



- **States that chose the modified approach tend to view the modified approach as the more helpful one (18/22), while states using the depreciation approach are more split on this issue**
- **10 states indicated that neither method was helpful for decision-making**

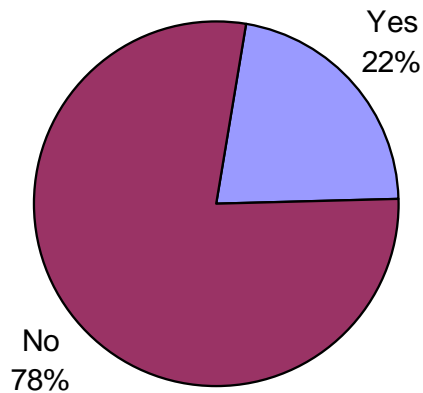
Regardless of which method your agency uses, which method do you feel is more challenging to implement and report?



- **States that chose the depreciation approach tend to view the modified approach as more challenging to use (19/28), while states using modified are more split on this issue**

## Methods Used (continued)

Were there different perspectives in your agency among the engineers, planners and finance people about the reporting method selected?



- **Comments indicated that engineers tended to prefer the modified approach to depreciation**
- **Regardless of approach, engineers tended to prefer more detail (additional layers of subsystems for asset categorization and different depreciation rates for different asset classes, for example)**

# Most Challenging Issues in GASB 34 Implementation

(slide 1 of 2)

- **Deciding on the basic reporting method was frequently identified as a challenging issue (9 respondents)**
- **However, only 11 of 50 states reported different perspectives among engineers, planners and finance (previous slide)**
  - **And, only one of 22 DOTs using the modified approach found it difficult to convince people at the DOT or State that the modified approach provided better information for financial reporting purposes**



# Most Challenging Issues in GASB 34 Implementation

(slide 2 of 2)

- **Developing a methodology to establish historical cost and current value and accounting for additions to and retirements from the system were two of the most challenging aspects of the GASB 34 exercise**
- **Current challenges focus on methodology and procedures in GASB 34 implementation**
- **Future challenges may shift to broader public policy and management implications of GASB reports as the value of this information is better understood and applied to asset management**



To illustrate the diversity in what DOTs found to be the most challenging issues...

- One state checked 9 of the 10 issues we suggested may have been a challenge for GASB 34 implementers (question 1 in survey) – all issues except ‘Converting data to a format that could be used in reporting’
- Four states checked that ‘Converting data to a format that could be used in reporting’ as the *single most challenging* issue for them during the implementation process (question 2 of the survey)



# Challenges in GASB 34 Implementation

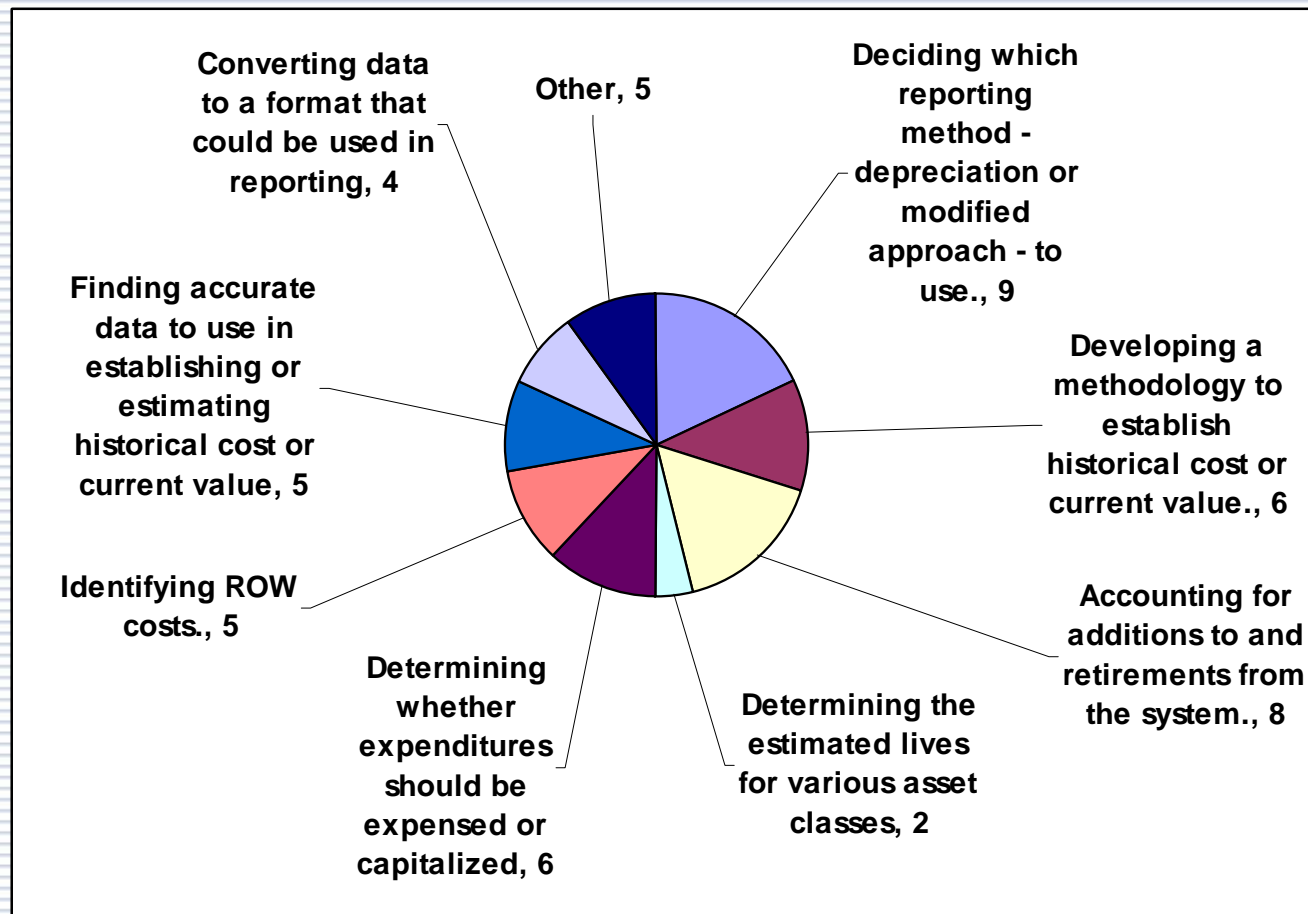
(Number identifies the frequency of each issue's identification)

- (31) Accounting for additions to and retirements from the system
- (29) Developing a methodology to establish historical cost or current value
- (19) Determining whether expenditures should be expensed or capitalized
- (19) Finding accurate data to use in establishing or estimating historical cost or current value
- (16) Deciding which reporting method - depreciation or modified approach - to use
- (16) Identifying ROW costs
- (16) Converting data to a format that could be used in reporting
- (11) Establishing a methodology for computing depreciation
- (10) Determining the estimated lives for various asset classes
- (8) Establishing accurate inventory figures
- (1) Other





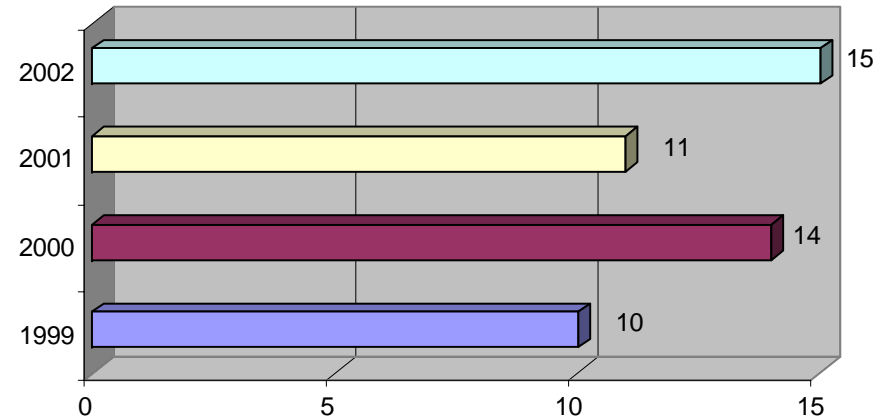
# The *Single* Most Challenging GASB 34 Implementation Issue for DOTs



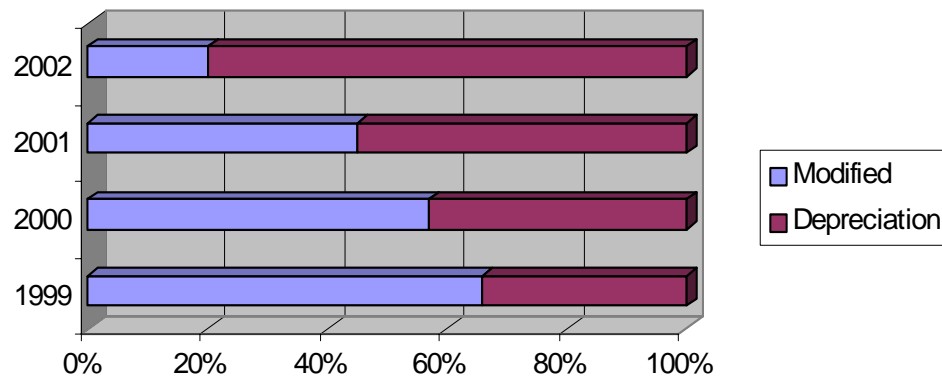


# GASB 34 Implementation Planning

What year did the GASB 34 infrastructure implementation initiative begin?



The later states began implementation, the more likely they were to choose depreciation.



# Increased Auditor Scrutiny

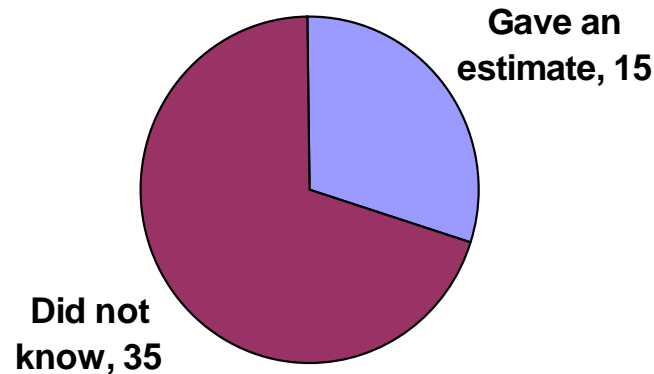
The advent of GASB 34 has increased the level of scrutiny by auditors. Over half of the states report increased auditor activities...

- **(32) Testing the historical cost of infrastructure assets**
- **(23) Advising on the development of procedures over infrastructure assets**
- **(23) Advising on the form and substance of the GASB 34 required information**
- **(20) Evaluating (asking questions about) internal control over infrastructure assets**
- **(19) Testing the calculation of depreciation expense**
- **(12) Evaluating the method to calculate asset useful life**
- **(9) Observing condition assessments**
- **(7) Other**
- **(6) None**
- **(5) Comparing infrastructure listings with information included in maps or similar public documents**

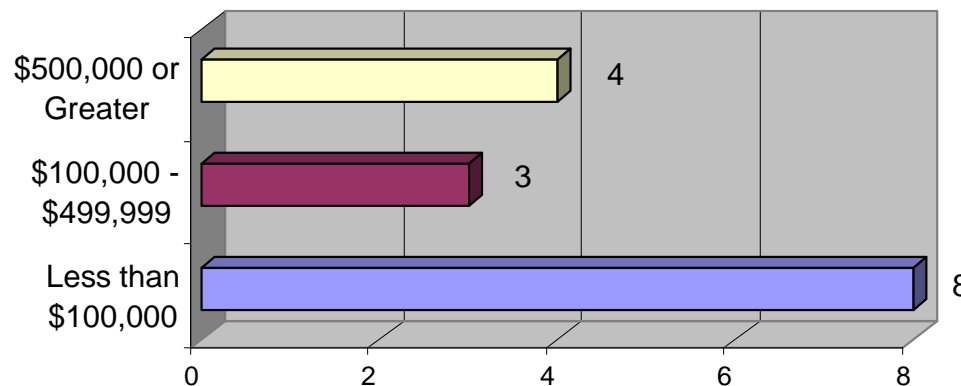


# Implementation Costs

**What were the costs involved in implementing GASB 34 requirements?**



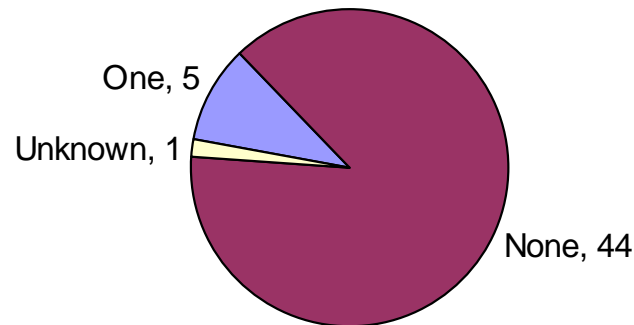
**Of those DOTs that gave an estimate of costs to implement GASB 34,**



States using depreciation reported an average cost to implement of \$210,090 (11 reporting) while states using modified reported an average cost of \$315,789 (4 reporting)

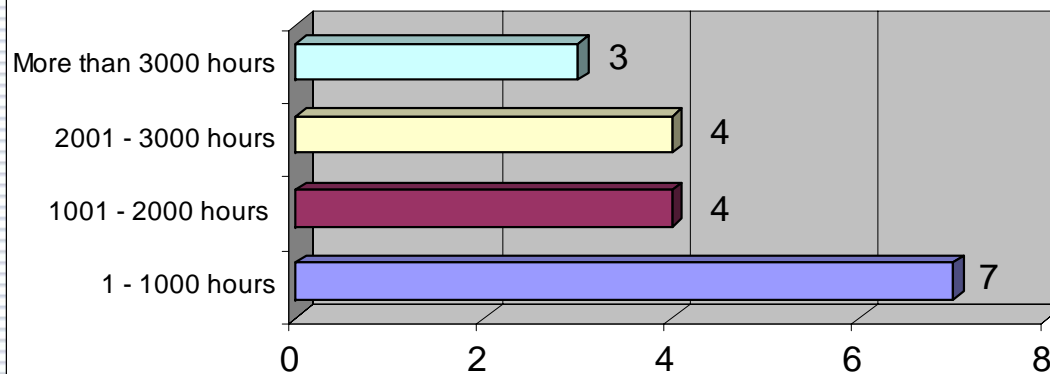
# Implementation Costs (continued)

**How many additional staff were hired to implement the infrastructure requirements of GASB 34?**

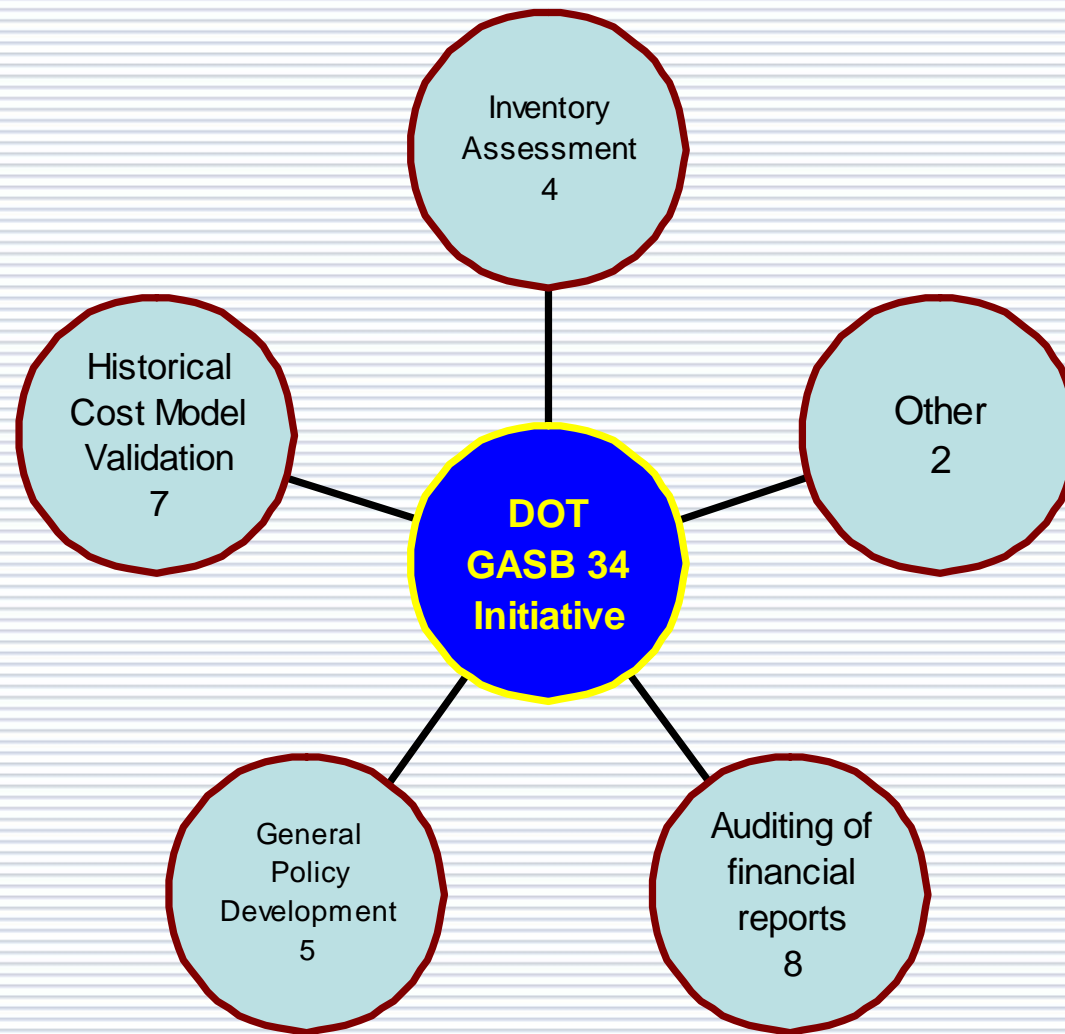


States using depreciation reported an average of staff hours to implement of 1,748 (13 reporting) while states using modified reported an average of staff hours of 3,210 (5 reporting)

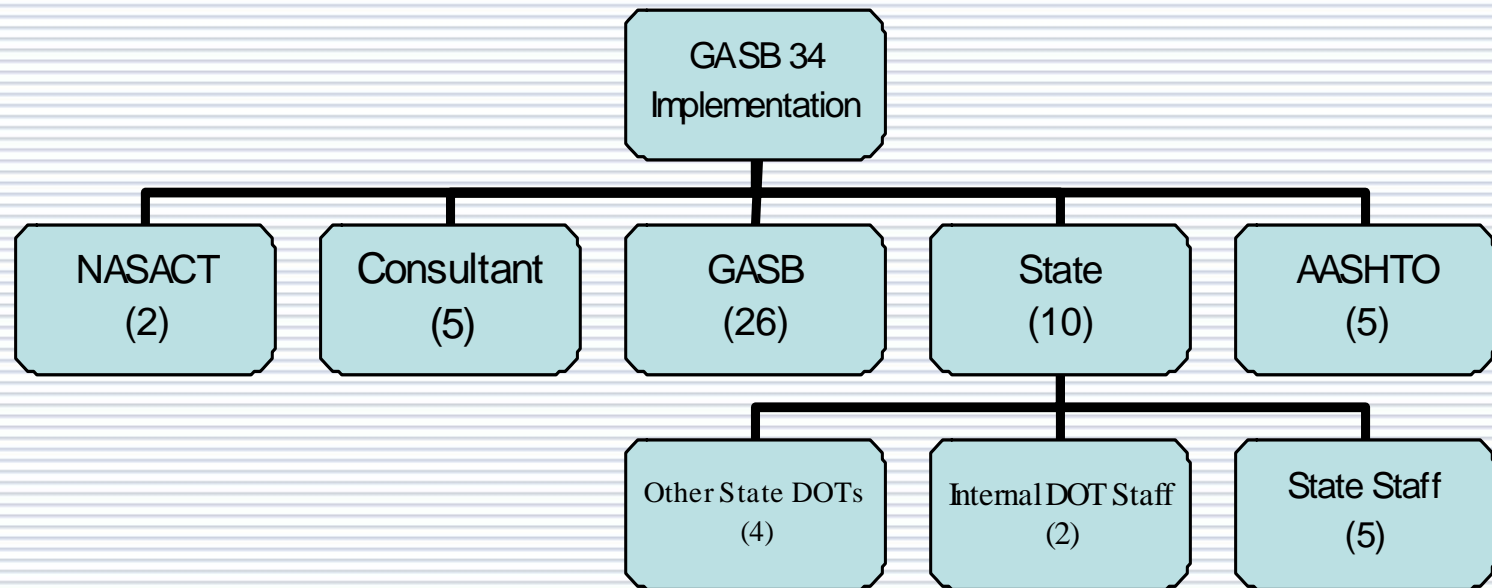
**How many hours of staff time were used in implementing GASB 34 requirements?**



# Consultants Hired to Provide Services



# Clarifying the Requirements



The single most important source of clarifying information on GASB 34 requirements were GASB publications and staff.  
(number of states using each source)

- Section 1: Overview Questions
- **Section 2: Depreciation**
- Section 3: Modified Approach
- Section 4: Organization and Decision Making
- Section 5: Costing Methodology
- Section 6: Condition Assessment

## Section 2: Depreciation

- **Issues in Selecting the Depreciation Approach**
- **Cost Allocation Policies**
- **Depreciation Calculation Methodologies**
- **Decision Making**