NATIONAL FEDERATION
of MUNICIPAL ANALYSTS

Mr. Alan Skelton
Director of Research and Technical Activities
Project No. 3-43P
Governmental Accounting Standards Board
801 Main Avenue, P.O. Box 5116
Norwalk, CT 06851

February 3, 2025

Via email to askelton@gasb.org

RE: Governmental Accounting Standards Board's Preliminary Views, *Infrastructure Assets*

Dear Mr. Skelton:

The National Federation of Municipal Analysts (NFMA) is pleased to respond to the Governmental Accounting Standards Board's (GASB) Preliminary Views, *Infrastructure Assets* (PV).

The NFMA is a not-for-profit association with nearly 1,200 members in the United States, comprising a broad range of municipal bond analysts from the buy-side, sell-side, rating agencies, and bond insurers. The mission of the NFMA is to enhance the professional development and analytical contributions of municipal market participants through best-in-class educational programs, networking opportunities, and targeted advocacy that supports improved disclosure to benefit the industry. The NFMA has published an extensive library of Best Practices in Disclosure and White Papers that are available on our website, www.nfma.org.

The NFMA supports the GASB's efforts to improve the transparency and quality of financial information available to help users of financial statements more accurately evaluate the credit attributes, trends, and fiscal health of governmental entities. The comments that follow are made in recognition of the clear alignment of interests that exists between the GASB's mission of good financial disclosure to users and our professional needs as analysts of municipal credit risk. Although there are many aspects of the PV that we support, we disagree with the GASB's conclusions regarding deferred maintenance.

Deferred Maintenance

From the NFMA's perspective, the GASB's most significant preliminary views in this project relate to deferred maintenance, which are addressed only in an appendix to the PV. Taking into account the unprecedented federal aid for infrastructure investment in recent years, the American Society of Civil Engineers still estimates the cost to catch up with necessary infrastructure repairs to be nearly $3 trillion for surface transportation; water, wastewater, and stormwater utilities; and energy utilities alone. Even without the costs related to other types of infrastructure, this obligation dwarfs that of all state and local government pension and other postemployment benefit (OPEB) commitments combined.

<u>The NFMA disagrees with the GASB's conclusion that deferred maintenance does not constitute a liability as defined in GASB Concepts Statement 4: "present obligations to sacrifice resources that the government has little or no discretion to avoid."</u> We believe that when a government constructs infrastructure assets, it is simultaneously committing to keep those assets in a state of good repair that allows them to be employed to provide the intended quantity and quality of service while protecting the safety of the users of the assets (drivers, passengers, customers, and so on). It is inconceivable to the NFMA that, as the GASB states in paragraph A8, a government does not have a social or moral obligation to maintain its infrastructure assets. The NFMA believes that when a government builds a bridge, for instance, the public expects that the government will maintain the bridge properly so that it remains both functional and safe, which constitutes a moral or social obligation of the government to do so.

In paragraph A9, the GASB notes that "governments generally have the ability defer performing maintenance or preservation activities" as evidence that they have the discretion to avoid sacrificing resources to address deferred maintenance. As the GASB also notes, one way in which a government has little or no discretion is "when it cannot indefinitely defer when the sacrifice of resources will occur…." Governments may be able to delay necessary maintenance for a long period but not indefinitely, or they risk the infrastructure becoming unsafe or nonfunctional. That circumstance represents another way in which a government has little or no discretion: "when the penalty or consequences for failing to sacrifice the resource is more than insubstantial." The substantial consequences of unsafe or nonfunctional infrastructure are injury or loss of life and economic losses, respectively.

We also disagree with the GASB's belief that "any obligation to the constituency…is generally in terms of the services to be provided and not related to having specific infrastructure assets kept at a specified condition level." For infrastructure-intensive services like transportation and water/wastewater, the infrastructure asset itself effectively is the service being provided rather than merely a means of providing a related service. Consequently, maintaining and preserving the asset in a safe and functional condition is an integral part of providing service.

Although the NFMA believes that deferred maintenance meets the GASB definition of a liability, we agree with some of the points made in paragraph A11 with respect to reporting deferred maintenance in notes to financial statements or required supplementary information (RSI). At this time, it is not likely that governments can produce information about deferred maintenance that would exhibit all six characteristics in GASB Concepts Statement 1: understandability, reliability, relevance, timeliness, consistency, and comparability. However, there may come a time when a method for producing deferred maintenance information with those characteristics is available to governments and, therefore, it would be appropriate to require governments to report it. Unfortunately, the GASB's definitive conclusion in the PV that deferred maintenance is not a liability would appear to preclude revisiting potential reporting in the future, a circumstance that the NFMA considers unacceptable.

Lastly, we also disagree with the GASB's characterization of deferred maintenance as "future maintenance and preservation costs." As with other instances in which governments elect not to fund obligations (such as postponing pension and OPEB contributions), deferred maintenance represents unfinanced *past* costs. We believe that if it were possible to measure such costs in a manner that meets the six characteristics, they should be recognized as expenses and liabilities as they are incurred.

Areas of Agreement

The NFMA agrees with the following preliminary views:

- *Chapter 3, paragraph 2: as a default, infrastructure assets should continue to be recognized and measured at historical cost net of accumulated depreciation.*
- *Chapter 4, paragraph 2: governments should periodically review and, if necessary, adjust their assumptions about estimated useful lives and salvage values of infrastructure assets.* The effectiveness of the proposal would be improved if the frequency of the reviews were described more clearly than "periodically." We believe that the requirement will not achieve the Board's objectives unless the standards establish parameters around what is an acceptable frequency for review. Language such as "should be reviewed at least once every five years" or "should be reviewed at least once every period equal to one-quarter of the infrastructure asset's estimated useful life" would be more effective.
- *Chapter 4, paragraph 6: each component of an infrastructure asset with a cost that is significant in relation to the total cost of the infrastructure asset should be depreciated separately if the useful lives of those components are different.* Depreciating a road surface with an estimated useful life of 5 years over a 20-year estimated useful life of a highway overall inaccurately reports each year's capital costs, especially considering that the road surface will be replaced three times over during that span (in other words, both the original and replacement surfaces are being depreciated simultaneously). The resulting information would be more consistent and comparable for bond analysis if the GASB were to provide guidance regarding (1) what constitutes significance in relation to total cost and (2) *how* different estimated useful lives would have to be for individual depreciation of a component to be mandatory.
- *Chapter 5, paragraph 3: to use the modified approach to reporting infrastructure, a government should have necessary processes in place,* rather than the current requirement to have an asset management system. This should allow governments that possess the required information but not a formal asset management system to adopt the modified approach.
- *Chapter 5, paragraph 12: if a government no longer meets the criteria for the modified approach, it should revert to reporting historical cost and depreciation.* This requirement would be more effective if (1) failure to present any of the RSI were specifically identified as not meeting the criteria, (2) the circumstance of an asset falling below the designated condition level also were specifically cited, and (3) governments were prohibited from lowering the designated condition level in order to continue using the modified approach.
- *Chapter 6, paragraphs 5, 9, 12, and 14: elimination of existing requirements to disclose in notes to financial statements (1) the description of the modified approach, (2) infrastructure assets not reported at the time Statement 34 was implemented, and (3) impaired infrastructure assets that are idle at year-end.* The information in note (1) is duplicative of what is presented with the RSI schedules, note (2) ceased to be useful when the transition to Statement 34 was completed, and note (3) does not appear to be essential as the GASB defines it.
- *Chapter 6, paragraph 7: disclosures should be separated by major classes of infrastructure assets.*

The classes of infrastructure assets are sufficiently different—for instance, sewer pipes versus bridges—that disaggregation by major class is appropriate. The GASB should be more explicit that this requirement would apply to *all* disclosures of infrastructure assets, both existing and proposed.

- *Chapter 6, paragraph 16: governments should disclose changes in their policies for capitalizing infrastructure assets or estimating useful lives.* The NFMA encourages the GASB to apply this requirement to all capital assets in a future Omnibus Statement.
- *Chapter 6, paragraph 19: governments should disclose the historical cost of infrastructure assets that are more than 80 percent depreciated, separately identifying those that are fully depreciated.* This note would be valuable to bond analysts in evaluating the age of infrastructure assets and, therefore, the potential need to finance reconstruction or replacement of the assets. Examined over time, this information also could indicate how quickly the assets are approaching the end of their useful lives. The note would be more informative for that purpose if it disclosed infrastructure assets that are 50 percent depreciated as well, in addition to 80 and 100 percent. The NFMA encourages the GASB to apply this requirement to all capital assets in a future Omnibus Statement.
- *Chapter 6, paragraph 22: governments should disclose maintenance or preservation expenses for the current reporting period related to infrastructure assets.* Presuming that governments can provide this information, it would be valuable to bond analysts in monitoring a government's maintenance efforts and evaluating maintenance costs in relation to the historical cost of the assets over time.
- *Chapter 7, paragraph 5: governments that depreciate their infrastructure assets should present an RSI schedule of the estimated and actual maintenance expense for each of the past 10 fiscal years.* Presuming that governments can provide this information, it would be even more valuable to bond analysts than the single-year disclosure of actual maintenance expense because it indicates the needed level of maintenance and a government's effort in relation to that need. This information may indicate whether the amount of deferred maintenance is rising or falling. The NFMA is concerned, however, about the reliability of the estimated amounts and how governments would determine them.
- *Chapter 7, paragraph 7: governments using the modified approach should continue to present an RSI schedule of the assessed condition of those infrastructure assets, performed at least every three years, for the three most recent complete condition assessments.* As noted below, however, the NFMA believes the condition assessments should be more frequent.
- *Chapter 7, paragraph 11: governments using the modified approach should continue to present an RSI schedule of the estimated and actual preservation expense,* but for the past 10 years instead of the current 5 years. This information is valuable for evaluating whether a government is keeping pace with necessary investment in its infrastructure assets and for understanding changes in assessed condition over time. Given the availability of information for earlier years in prior financial reports, the expansion to 10 years may not be necessary, though for the same reason it should not trouble governments to provide it.
- *Chapter 7, paragraph 14: governments using the modified approach should continue to disclose in notes to RSI (1) the basis for the condition measurement and the measurement scale used to assess and report the condition and (2) the condition level at which the government intends to preserve the assets.* This information is essential for bond analysts to understand how the reported information translates into an understanding of the physical condition of the assets. Absent these explanations, the reported condition levels may not be meaningful.
- *Chapter 7, paragraph 15: governments should disclose in notes to RSI any factors that significantly*

affect the trends in RSI schedules. The accuracy of any conclusions drawn from the RSI schedules depends on the trend information being consistently prepared and reported. Bond analysts need to be aware of any changes during the period covered by the RSI that would affect their ability to reliably compare information throughout the period.

Area of Disagreement

We disagree with the following preliminary view:

- *Chapter 6, paragraph 25: governments should disclose their policy for monitoring and maintaining or preserving infrastructure assets.* Without more explicit guidance for what this policy statement should contain, we believe it is likely to be uninformative and boilerplate.

Area of Concern

We are concerned about the following preliminary view:

- *Chapter 5, paragraph 6: complete condition assessments should be performed and documented at least every three years.* Use of the modified approach is contingent upon preserving the infrastructure asset at or above a designated level. We are concerned that, because more frequent condition assessments are not required, it is possible that a government performing assessments every third year can continue to use the modified approach for up to two years despite the asset's condition having fallen below the designated level. However, we are sympathetic to concerns about the potential cost to governments and auditors of moving to annual condition assessments. A change to *at least biennial* condition assessments may be a suitable compromise.

We thank you for the opportunity to provide our comments on the Preliminary Views and would be happy to discuss our feedback in follow-up communications.

Sincerely,

Lisa S. Good

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