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## FINANCE COLUMN

### THE NOT-SO-GREAT GASB

Why should governments calculate value for something that can't be sold anyway? Who's going to buy a city street?

By John E. Petersen

Last June, when the Governmental Accounting Standards Board revised the standards for financial reporting for state and local governments, the lay public barely noticed. For finance officers and others charged with keeping their governments' books, GASB's Statement No. 34, the culmination of 15 years of effort, was as easy to ignore as an explosion.

The blockbuster is the new requirement that governments use full-accrual accounting on their capital investments and holdings--even such things as sidewalks and streets. This radical departure from the way governments have been reporting their performance and fiscal condition is meant to mimic private-sector financial reporting precepts. GASB's imposition of full-accrual accounting has led to threats of mutiny among finance officers who believe that the extrapolation of private-sector techniques to the public sector is a bad and expensive idea whose time has not come, no matter what the great GASB says.

According to GASB and other critics of the present standards for reporting, governments do not now account for the resources that are being used up. Each government has a patrimony of inherited public capital, the thinking goes, and the wear and tear of years requires that it be repaired, replaced or otherwise maintained. Unless governments systematically account for this wasting away and usage--unless they explicitly recognize that capital is being consumed--they will tend to under-invest and let things deteriorate.

Of course, governments have kept formal track of capital assets for many years but taken depreciation only in their enterprise funds (which generate revenues). But improvements that do not generate revenues are not accounted for on a government's balance sheet, which is reserved for financial resources. The general government tax-supported sector has always focused on financial resources--"cash on hand"--because that is what the in-office crop of politicians has to spend.

GASB argues that full-accrual accounting will give readers of financial statements a clearer notion of a government's true fiscal condition. But there is a political subtext here and it is this: Governments need to be watched to make sure they are recognizing the cost of capital. The idea is to hold successive governments accountable for all the resources they use in producing public services.

Why do these accounting fine points exercise people so much? In part,

it's because of the frugal realism with which finance types approach their work. There are several complaints, a big one being the cost and trouble of calculating depreciation. And there are some complicating technical factors: Depreciation can be close to arbitrary. Actual "worth" will depend on maintenance and the future opportunity costs. Aside from these quibbles, there is the philosophical issue of what value to place on something that has no secondary market and which in all likelihood can't be sold anyway. Who's going to buy a city street? But there's also another major charge: Governments that appeared to be running perfectly well on a modified-accrual basis will, under a full-accrual basis, start to register deficits.

The impacts of that will need to be explained to the next generation of elected officials. When they pop open the new annual financial report, they will see first a pile of new-found physical assets on the balance sheet. ("We're rich!") But they will have cardiac arrest after they flip the page and see the town is running losses when it doesn't have an operating surplus to offset its depreciation charges. ("We're poor!") None of this, of course, will have an impact on its expendable resources.

Perhaps the most irritating thing, however, is that governments will be keeping their books in yet another way to accomplish what many consider a rather dubious policy aim. Statement No. 34 doesn't disestablish fund accounting. Rather, it loads full accrual on top of it--the so-called "dual perspective" approach. It's little wonder that so many finance officers are upset about Statement No. 34.

Their national trade association, the Government Finance Officers Association, has stated that at least for the time being, governments will not have to conform with the infrastructure accounting requirements in order to receive the Certificate of Achievement Award, the real standard-setter in the realm of professional accomplishment.

Keeping more than one set of books is nothing new to finance officers, who for years have kept accounts both to satisfy state requirements and to comport with Generally Accepted Accounting Principles. The last few years have seen a convergence of requirements toward GAAP and much better financial reporting overall. Now, there's another set of calculations, overriding the erstwhile standards, and all it will do is give yet another "perspective" on government.

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