Pew

January 17, 2025

Mr. Alan Skelton
Director of Research and Technical Activities
Project No. 3-43P
The Governmental Accounting Standards Board
801 Main Avenue
Norwalk, CT 06856

Dear Director Skelton:

On behalf of The Pew Charitable Trusts' State Fiscal Policy project (Pew), we thank the Governmental Accounting Standards Board (GASB) for the opportunity to comment on its Preliminary Views (PV), *Infrastructure Assets*. We commend the GASB for its ongoing effort to improve the consistency, transparency, and usability of government accounting and financial reporting. This work is critical to ensuring policymakers, stakeholders, and the public have access to accurate and actionable information that supports sound decision-making and government accountability.

As users of governmental financial reporting, Pew relies on financial statements to inform research and analysis on critical fiscal issues affecting state governments. These include long-term obligations that lay claim to states' future budgets and financial resources, such as public retirement promises, retiree health care benefits, and the growing costs of deferred maintenance of infrastructure assets. The data collected from financial statements underpins Pew's research into the fiscal challenges facing state and local governments, as well as the technical assistance and evidence-based recommendations we provide to policymakers to help government officials balance long-term fiscal obligations with other essential public services.

Our research shows that deferred infrastructure maintenance is a significant and growing fiscal challenge. While most states do not report the size of their deferred maintenance backlog, estimates from the American Society of Civil Engineers and research from the Volcker Alliance suggest that the backlog exceeds $1-3 trillion nationally—on par with the costs states and localities face for unfunded pension and retiree health care obligations. These fiscal challenges collectively represent commitments requiring significant future resources to fulfill current promises and policy objectives. Consistent, usable data on the scale and scope of these obligations is essential to understand a state or local government's current financial conditions and long-term fiscal health.

We commend the GASB for its efforts in the PV to improve reporting and transparency for infrastructure assets. The proposed changes will provide critical information needed to assess the condition of our core public systems—such as roads, bridges, and water infrastructure—and the fiscal shortfalls related to deferred maintenance of these essential public assets. Pew supports the adoption of these changes, with a few targeted adjustments outlined in this letter. However, we encourage the board to revisit its determination that deferred maintenance does not constitute a liability. Deferred maintenance represents a significant long-term obligation—one that governments pass on to future taxpayers—and should be understood and discussed as such.

Key Recommendations

To strengthen the impact and durability of these reforms, we humbly urge the GASB to consider the following recommendations:

- **Recognize deferred maintenance as a governmental liability:** Deferred maintenance represents a future claim on governmental resources and a cost passed on to future taxpayers. As such, we believe it meets the definition of a governmental liability, and we urge the GASB to reconsider its preliminary determination that it is not.

- **Support the use of the modified approach:** The modified approach should be encouraged to support transparent reporting on public infrastructure. State and local governments should be permitted to use the modified approach even if they fall short of meeting asset preservation goals, provided that such shortfalls are disclosed.

- **Implement and enhance the reporting requirements proposed in the PV**: The proposed reporting changes would significantly improve the usefulness of governmental financial reporting. We support their implementation and encourage the GASB to consider targeted adjustments that would further clarify and enhance the reporting standard.

Deferred Infrastructure Maintenance as a Governmental Liability

While the proposed reporting changes would improve state and local financial reporting, we encourage the Board to reconsider its determination that deferred maintenance does not constitute a liability. The GASB defines liabilities as "present obligations to sacrifice resources that a government has little or no discretion to avoid" (GASB Concepts Statement No. 4). Deferred maintenance meets that definition and shares similar characteristics with pension and other post-employment benefit (OPEB) liabilities already recognized by the GASB.

- Deferred maintenance is the sum of the needed investments in capital maintenance and asset preservation that are past due. As such, it is a "present obligation" to address past shortfalls, similar to how net pension and OPEB obligations are now recognized as liabilities in state financial reporting.

- Deferred maintenance liabilities represent future claims on public resources that will crowd out public spending that would have otherwise occurred, or will require governments to raise additional revenues to meet these obligations.

- While governments can control the timing of payments, they cannot avoid the obligation. Unlike public debt, which comes with an externally imposed payment schedule, there is no set timeline for addressing deferred maintenance for roads, bridges, and other infrastructure. However, much like underfunded pension liabilities—where policymakers have discretion in setting funding plans—there is an understanding that these obligations must be met. This reflects a social and fiscal contract between governments and taxpayers, where governments commit to maintaining public infrastructure and services in exchange for the taxes, tolls, and fees paid by taxpayers. Failing to meet these commitments risks compromising safety, public trust, and the essential services that all communities rely on.

- Estimating deferred maintenance liabilities will be based on an understanding of the reporting government's policy goals: what is considered a state of good repair; how are assets managed over their life cycles; and what goals are public infrastructure assets intended to achieve? While these questions may introduce variability in estimating deferred maintenance liabilities, similar fluctuations occur with the net pension and net OPEB liabilities, which increase or decrease based on changes to benefits, actuarial assumptions, and investment returns.

We acknowledge that classifying deferred maintenance as a liability does not mean that governments will be immediately equipped with the data, methods, and tools necessary for comprehensive reporting on these obligations. However, a decision affirming that the future costs for past shortfalls in maintaining and preserving public infrastructure are not a liability would lead to an incomplete understanding of a significant issue affecting public finances.

Recent and emerging developments also make the consideration of deferred maintenance as a liability particularly timely. Since 2021, governments across the country have received an infusion of federal funds for investment in transportation and water infrastructure—representing a historic down payment after decades of underinvestment. At the same time, the nation's aging infrastructure is increasingly vulnerable to climate-related impacts and damages. As governments prepare to make new investments using federal funds and issue bonds to make existing infrastructure assets more resilient, greater transparency is needed about how they are meeting—or falling short—of the commitments that they have already made to residents and taxpayers. The availability of information on pensions and the adequacy of pension funding practices in financial reports helped ensure accountability and improve the sustainability of public sector retirement policy—similar information on infrastructure funding gaps could help promote similar improvements for roads, bridges, and other public assets.

We recognize that calculating the deferred maintenance liability can be challenging, particularly for certain types of infrastructure assets or for smaller governments. However, there are cases where governments may already collect and maintain the information needed to report these liabilities, even if that information is not currently made accessible to the preparer of the financial statement. For example, state governments are required to report routinely on condition assessments and progress toward preservation and maintenance targets for roadways and bridges in the National Highway System (NHS) in federally required Transportation Asset Management Plans (TAMPs).

Similarly, the GASB's current and proposed standards for the modified approach require an asset inventory, condition assessment, and methodology for assessing the amount needed to maintain and preserve infrastructure assets. State and local governments that use the modified approach have the tools needed to calculate and report a deferred maintenance liability. A discussion of how existing reporting on transportation infrastructure demonstrates that states have the capacity to assess their deferred maintenance liabilities is included in **Appendix 2**.

Recognizing deferred maintenance as a liability would align financial reporting with the true long-term costs governments face and help policymakers plan proactively for critical investments and increase the transparency of the information made available to users of financial reporting. When governments defer necessary maintenance, they pass today's costs onto future taxpayers in the form of:

- Higher repair costs, as deferred maintenance leads to further system deterioration.
- Reduced service quality, as aging infrastructure becomes less reliable.
- Increased public safety risks, particularly in the face of growing climate stressors and impacts on critical systems.

This deferral creates a future cost—and in turn, a future claim on public resources—that is important to understanding the fiscal condition of the reporting government, and which should be accounted for and disclosed transparently as a liability.

Encouraging the Use of the Modified Approach

State and local governments build roads, bridges, and buildings with the intention of preserving those assets for long-term use. While individual assets may need to be replaced or become obsolete, it is more useful to report on whether governments are effective at keeping the overall system of assets in a state of good repair rather than reporting annual depreciation that assumes a fixed end point for public infrastructure.

Furthermore, state and local governments that put in place the tools to apply the modified approach—specifically, infrastructure inventories, condition assessments, and methods to estimate preservation needs—will have a better sense of the current and future fiscal implications of their infrastructure management policies and will be better able to include that information in their financial reporting.

Given the utility of the modified approach for transparent reporting on public infrastructure, the GASB could consider whether there are asset types, such as roads and bridges, for which it might be appropriate to require the use of the modified approach. Any such requirement could be appropriately limited to states or larger local government reporters that are better able to meet this mandate.

Even without a requirement to use the modified approach, ensuring that governmental accounting standards do not pose any unnecessary obstacles to doing so would allow for governments to use optimal approaches to reporting on their public infrastructure. State and local governments must meet two conditions to use the modified approach. The first is to have the necessary tools, as outlined above. The second is that the assets reported are documented as being maintained at or above a condition level set by the reporting government.

This second requirement is unnecessary and limits the usefulness of the financial statements by discouraging governments from using the most effective reporting approaches. **States and local governments that are falling short of adequately preserving their assets and have the tools in place to document such shortfalls would be better served by reporting them as part of applying the modified approach, rather than by requiring the use of historical cost minus depreciation.** As discussed in Pew's recommendations (**Appendix 1**), the changes to the Required Supplementary Information (RSI) disclosures in the PV that would extend the reporting schedule of the expense necessary to preserve infrastructure assets—as well as actual expenditures for that purpose—can provide additional information needed to track accumulated shortfalls and would offer a relatively straightforward way to allow states falling short of preserving assets to utilize the modified approach in a transparent manner.

Value to Users of Proposed Reporting Requirements

The reporting changes included in the PV would mark an improvement over current practices and would increase the value of financial reports to the users of those documents. In particular, the proposed requirements for additional data would more closely align information on infrastructure assets to the information that is currently made available on pensions and retiree health care obligations while meeting reporting entities where they are in terms of reflecting current reporting practices and the information that state and local governments have available.

For infrastructure assets reported using historical cost minus depreciation (the majority of total public infrastructure assets), two changes to disclosure requirements included in the PV would provide significant insight into the potential future fiscal impact of asset management policies:

- Data on expenditures on preservation to compare against depreciation allows users to assess whether the condition of current assets is being held stable or is declining.

- Reporting the historical cost of infrastructure assets that are past their estimated useful lives as well as the cost of assets between 80% and 100% of their estimated useful lives.

Both additional reporting requirements offer a proxy for the future fiscal impact of infrastructure management policies rather than a direct measure, which reflects the amount of information reporting entities can be expected to have available. Despite that limitation, both measures will make the disclosures for those infrastructure assets significantly more informative.

Additionally, the proposed change to separate out assets by infrastructure category will offer more nuance and detail on state and local government infrastructure, though clarification on how to define major categories may aid in the implementation of this change.

For assets reported using the modified approach, a key addition in the PV requires 10 years of data on the annual amount required to keep that infrastructure at or above the established condition level compared with what was actually expensed. (The previous requirement was five years of data.) The addition of more years of data improves the ability of data users to assess trends and whether the overall level of expenditures over the prior decade was adequate compared with assessed needs.

Pew supports these proposed changes as users of financial reporting.

Opportunities to Improve These Proposed Changes

While the proposed changes to reporting requirements for infrastructure assets would improve public sector financial reporting, Pew identified several opportunities to build on these requirements. The following changes would strengthen both the existing and proposed reporting requirements:

- Allow reporting governments to use the modified approach even if covered assets are being insufficiently preserved as long as the funding gap is documented and reported.

- Clarify the reporting requirement for the modified approach to ensure that information on the amount needed to preserve covered assets has the appropriate context.

- Consider how to ensure reporting requirements on preservation and maintenance for assets reported on using historical cost net of depreciation meets user needs without creating an excess burden for reporters.

More detail on Pew's recommended changes is included in **Appendix 1**.

Finally, we note that under the discussion in Appendix A of the PV, the Board's view is that accumulated deferred maintenance shortfalls do not meet the GASB's definition of a liability, nor did the Board determine that it represented a moral or social obligation. **From our perspective as a user of financial statements, future costs to meet policy goals and obligations set for a government—either by its own policymaking, by Federal requirements, or by what is needed to meet a minimum standard of service and safety—represent an important piece of financial information and should be reflected appropriately as liabilities in the financial statements**.

The work of the GASB is critical to providing a shared understanding of the fiscal condition and financial sustainability of state and local governments. The PV would improve on existing reporting standards and offer key data points needed to understand whether public infrastructure is being adequately preserved and managed or if the costs of addressing today's backlogs will need to be taken from tomorrow's budgets. There remains an opportunity to further strengthen these proposed changes both by improving and clarifying some of the reporting requirements and by reconsidering the determination that deferred maintenance and preservation are not a liability for state and local governments.

Thank you for this opportunity to comment. If you have any questions, please feel free to contact us at mmurphy@pewtrusts.org or ddraine@pewtrusts.org.

Sincerely,

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About The Pew Charitable Trusts

The Pew Charitable Trusts (Pew) is a nonpartisan, nonprofit research organization dedicated to improving public policy, informing the public, and invigorating civic life. As part of Pew's broader Government Performance portfolio, the State Fiscal Policy Project provides research, analysis, and technical assistance to policymakers nationwide to strengthen fiscal management, address long-term obligations, and enhance government accountability and transparency.

For over a decade, the State Fiscal Policy project has worked with state and local governments to address systemic fiscal challenges, including unfunded retirement obligations, retiree health benefits, and deferred maintenance for core infrastructure. Since 2007, Pew's research has analyzed 50-state trends on public pensions and retiree health funding, investments, governance, and plan design, while providing technical assistance to over 25 states and cities.

Appendix 1: Recommendations and Comments on the Preliminary View

Pew strongly supports the changes outlined in the PV to improve transparency and consistency in infrastructure reporting. These improvements will provide essential insights into the condition of infrastructure assets—including roads, bridges, and water systems—and highlight funding shortfalls needed to preserve and maintain these critical public systems. However, we encourage the GASB to consider several targeted changes to help governments better report maintenance and preservation expenses and allow them to use the modified approach while accounting for any shortfall in needed preservation spending.

Our recommendations and comments are outlined below, along with examples of effective reporting approaches from states in **Appendix 2**. We appreciate the GASB's continued leadership and commitment to strengthening financial reporting standards for the benefit of governments, stakeholders, and the public.

- **Allow the modified approach to show preservation funding gaps.** The modified approach for assets that can be preserved in perpetuity allows for a more nuanced way of tracking the condition of public infrastructure.
    - Allowing state and local governments to use this approach when they have an asset management system, perform condition assessments, and estimate the amount needed to preserve and maintain their assets even if they are falling short of meeting those preservation targets would improve the quality of financial disclosure for states and local governments that are able to track the condition of infrastructure assets even if they are unable to adequately fund them.
    - Using the results from the modified approach to ensure that any shortfalls are disclosed would ensure that those reporting governments would not be getting a free pass to avoid reporting depreciation by instead disclosing their preservation funding gaps.
    - The current requirement can create volatility in financial information if states are compelled to switch reporting methods when preservation goals are not being met.

- **The 10-year schedule of needed investment to preserve infrastructure assets needs clarification.** Current reporting requirements include a 5-year schedule of needed investments to preserve infrastructure assets, which would be expanded to 10 years under Chapter 7 of the PV. However, state and local reporters might benefit from greater clarity in how to define the concept of needed investments and users of financial data might benefit from greater clarity in what is being measured.
    - Including a description of the asset management framework applied, linking the metrics to the condition and state of good repair used to inform and guide that asset management framework, and describing how the estimation of the annual amount needed to maintain and preserve the assets is done would add useful context to the numbers provided.
    - Similar to how pension and OPEB reporting can direct the reader to the relevant supporting actuarial valuations to provide that methodological detail, states and local governments can use similar accompanying documentation (i.e. a TAMP or a State Transportation Improvement Plan for surface transportation assets) to inform the reporting of assets covered under the modified approach.

- **Clarify the reporting of preservation expenses.** Pew agrees with the distinction made between maintenance expenses and preservation expenses in Chapter 6 of the PV. However, it is worth acknowledging that reporting and budgeting tools available to state and local governments may make applying that distinction difficult or impossible.
    - An alternative approach would be to allow reporters to disclose the combined expenditure on maintenance and preservation while also requiring a disclosure of annual operating maintenance requirements for those assets.
    - It is unclear how the RSI disclosure changes in Chapter 7 would relate to the Note disclosures. A combined disclosure with annual required maintenance and annual preservation and maintenance expenditures might simplify the issue for both reporters and users (the combined disclosure could reside either in the Notes or the RSI).

Appendix 2: Examples from Transportation Reporting

Pew's review of state government Annual Comprehensive Financial Reports (ACFRs) indicates that governments using the modified approach are doing so for surface transportation assets—roads, bridges, and related infrastructure. This is not surprising: Roadway networks are largely intended to be preserved in perpetuity and the specific assets themselves lend themselves to repair, rehabilitation, and renewal efforts that will improve their condition and extend their useful lives. Furthermore, state Departments of Transportation (DOTs) often have relatively sophisticated approaches to asset management that are supplemented by various Federal requirements for tracking, managing, and maintaining the National Highway System (NHS) assets under states' jurisdiction.

Examining existing state transportation reporting practices can help demonstrate that the tools exist for effective disclosure, at least for roads and bridges, and that the information contained provides important insight into how states are managing these assets.

- Washington state offers an example of voluntary disclosure of deferred maintenance liabilities. Referred to in the state's transportation performance management report as the "deferred preservation liability", it was estimated at $460 million in 2022 as the cost of addressing the accumulated backlog of projects that are past due to preserve state roads. Washington's approach of identifying projects that are past due, or similar methods that look at the replacement costs of assets past their useful lives, offer one approach to measuring and reporting the liability for deferred maintenance. For more information, see the Pavement section of the WSDOT's Gray Notebook.

- Michigan, Kansas, and Florida show how the existing infrastructure reporting using the modified approach allows users to assess whether asset preservation needs are being met as long as the calculation of the amount needed to preserve and maintain is reasonably calculated. These states use the modified approach for roads and bridges and disclose a 5-year schedule of planned preservation expenditures against actual expenditures. In Florida's case, the numbers show that actual expenditures were relatively close to the estimated amount, with some fluctuation of both the benchmark and actual expenditures. Kansas's 2024 ACFR showed that FY 24 expenditures for roads and bridges exceeded what was necessary to maintain the system at a minimum acceptable condition, helping address past shortfalls from 2020 through 2023. Michigan's ACFR shows the combined estimated spending for roads and bridges compared with actual spending although importantly the established condition levels the state uses as a target for this purpose are less stringent than those established in the state's own TAMPs. While different reporting documents will reflect different objectives, the latter point highlights the usefulness of greater clarity in these disclosures—what is being presented, how is it calculated, and how does it relate to the reporting governments' actual policy goals would add context to these useful numbers.

- The ACFR is a valuable source of financial information for transportation infrastructure, but other sources could let the user understand how the underlying data supporting the modified approach is collected and analyzed and provide context for the results presented in the ACFR.

State TAMPs offer a detailed report on states' approaches to managing their transportation assets within the NHS, offering a partial but detailed look at the strategic approach state DOTs are undertaking as well as the specific information and analysis used to guide their implementation of that strategy. Most states include gap analyses in their TAMP, showing if there is an anticipated gap over a 10-year projection period from what would be required to achieve a state of good repair. These reports demonstrate that state budget officials have access to detailed, data-driven assessments from their DOTs that would allow for the calculation of a deferred maintenance liability. Better connecting the accounting and reporting function of state and local governments to the asset management systems already being used by DOTs and similar agencies would allow that information to be applied to financial reporting, just like the actuarial valuation process for pensions then allows information on those liabilities to be incorporated in ACFRS.

Washington state offers an illustrative example of projecting a funding gap for transportation infrastructure with $3.18 billion in needed investments for capital preservation for NHS roads along with another $397 million in anticipated operational maintenance needs (as seen below in Exhibit 1). With $2.14 billion in projected spending on preservation, rehabilitation, replacement, and maintenance for covered roads, the state DOT reported a projected $1.44 billion investment gap. Using the data and analyses used to compile the TAMP could allow similar analyses of current and past preservation needs compared with actual expenditures.

Exhibit 1
10-Year Pavement Needs from the Washington Transportation Asset Management Plan

Pavement Ten Year Average Need ($ in Millions)	2022	2023	2024	2025	2026	2027-2031	Total
Capital Preservation	$318	$318	$318	$318	$318	$1,590	$3,180
Operational Maintenance[2]	38	38	39	39	39	204	397
Total Need	**$356**	**$356**	**$357**	**$357**	**$357**	**$1,794**	**$3,577**
Pavement Ten Year: Planned Spending ($ in Millions)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027-2031**	**Total**
Total Capital Preservation Spending	$186	$177	$177	$168	$168	$863	$1,739
Preservation[3]	*30*	*28*	*28*	*27*	*27*	*138*	*278*
Rehabilitation	*104*	*99*	*99*	*94*	*94*	*483*	*973*
Replacement	*52*	*50*	*50*	*47*	*47*	*242*	*488*
Operational Maintenance Spending	38	38	39	39	39	204	397
Total Spending	**$224**	**$215**	**$216**	**$207**	**$207**	**$1,067**	**$2,136**
Investment Gap	$(132)	$(141)	$(141)	$(150)	$(150)	$(727)	$(1,441)

Source: WSDOT 2022 Transportation Asset Management Plan, p. 59.
https://wsdot.wa.gov/sites/default/files/2021-10/Washington-State-DOT-Transportation-Asset-Management-Plan.pdf