

GASB STILL SAYS DEFERRED MAINTENANCE IS NOT A LIABILITY

- *GASB continues to believe that deferred maintenance is less of a government liability than unfunded pensions and OPEBs.*
- *Thus deferred maintenance is unlikely to be better defined in audits, even in the notes section, meaning a slower path to solutions.*

GASB's new proposal for infrastructure asset accounting standards recommends that governments provide additional information related to the maintenance and useful life of such assets but falls short of requiring an assessment of the government's deferred maintenance obligation. The aggregate amount of this obligation for municipal issuers is not trivial, making the long-term financial condition of a government harder to see. In recent years, industry experts have estimated that the deferred maintenance liability is likely more than \$3T, in aggregate, for water utilities (at \$1.2T alone), state level infrastructure, and higher education institutions.

Although GASB's proposal offers valuable information on aspects of infrastructure assets—including on policies, estimated useful lives, and maintenance/preservation expenses—the standards-setting body's view that deferred maintenance does not rise to the level of a liability (or a moral or social obligation) under its lexicon is unfortunate because, like pensions or OPEB, shorting spending in the present means a harder path to address obligation in the future. **MMA** concurs that calculating a specific deferred maintenance obligation is likely too difficult and costly to determine (at present), BUT the view that it is not a liability is, in our opinion, a missed opportunity to encourage governments to better account for, understand, and disclose the (potentially growing) obligations associated with decisions to defer maintenance expenses in current spending plans.

Hidden debt: Deferring regular maintenance obligations of infrastructure assets amounts to borrowing from future budgets (i.e., deficit financing) and violates the concept of inter-period equity. Future taxpayers will bear the accumulated burden of paying for today's needed maintenance/repair of infrastructure that was not prioritized in favor of other spending.

Although it may not be supported by GASB's concept statements, we'd argue that there is an implicit moral/social obligation created through the payment of taxes for governments to adequately maintain essential infrastructure necessary for the health, safety, and welfare of its taxpayers. Investors worried about future claims on the government are not the only stakeholder group that is impacted by the current lack of transparency. Resident taxpayers are entitled to better clarity on how their government is funding/not funding its infrastructure obligations.

\$0 cannot compete with millions/billions for scarce resources: GASB's accounting standards for pensions and OPEB about 10 years ago enhanced transparency of the size of these obligations, the consequences of under-funding annual contributions, and created an urgency to reduce unfunded liabilities. Pension visibility improved funding practices but also, unintentionally, lowered the relative importance of funding other budget priorities, including infrastructure spending, from scarce resources since the cost and liability of deferring such spending remained opaque.