



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Resolution in Opposition of GASB Plans to mandate Infrastructure Reporting in Financial Statements

MEETING DATE: April 21, 1999

PREPARED BY: Finance Director

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- **RECOMMENDED ACTION:** That the City Council adopt the attached Resolution joining Government Financial Officers Association (GFOA) in opposing GASB's mandate to include Infrastructure Assets such as roads and bridges in the annual Financial Reports.

BACKGROUND INFORMATION: The Governmental Accounting Standards Board (GASB) plans to promulgate a new governmental financial reporting model for state and local governments in June 1999. One of the more controversial features of this new model is the treatment for infrastructure assets (e.g., roads, bridges). Traditionally, state and local governments have not been required to report infrastructure assets of the general government be included in their financial reports. The GASB now plans to require that infrastructure assets be reported and depreciated in the financial statements of state and local governments. GFOA is greatly concerned about the potential costs involved with implementing infrastructure reporting.

GFOA has been guided in developing its position by the view that changes in financial reporting should be justifiable on the basis of their anticipated practical benefits. Infrastructure reporting and depreciation, in GFOA's view, do not meet this test. Not only is the historical cost of an infrastructure asset irrelevant to decision making, but also the allocation of that cost to subsequent periods in the form of depreciation expense is at best irrelevant, and at worst misleading.

GFOA's Executive Board, at its most recent meeting, voted unanimously in favor of a policy that:

- Opposes the mandatory reporting of infrastructure assets on the statement of position, and
- Opposes the depreciation of those assets.

GFOA then urges all members to communicate with GASB the concern regarding infrastructure reporting in the financial statements of state and local governments.

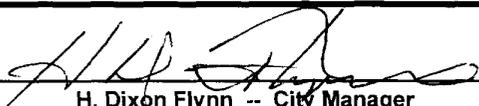
Attached is the City of Lodi's letter to GASB.

FUNDING: None


Vicky McAthie
Finance Director

Prepared by: Ruby R. Paiste, Accounting Manager

APPROVED: _____


H. Dixon Flynn -- City Manager

RESOLUTION NO. 99-59

A RESOLUTION OF THE LODI CITY COUNCIL IN OPPOSITION TO
THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD'S
(GASB) PLAN TO MANDATE INFRASTRUCTURE REPORTING IN
FINANCIAL STATEMENTS

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WHEREAS, the Governmental Accounting Standards Board (GASB) plans to promulgate a new governmental financial reporting model for state and local governments in June 1999; and

WHEREAS, traditionally, state and local governments have not been required to report infrastructure assets of the general government in their financial reports; and

WHEREAS, GASB now plans to require that infrastructure assets be reported and depreciated in the financial statements of state and local governments, and the Government Financial Officer's Association (GFOA) is greatly concerned about the potential costs involved with implementing infrastructure reporting; and

WHEREAS, the GFOA has been guided in developing its position by the view that changes in financial reporting should be justifiable on the basis of their anticipated practical benefits; and

WHEREAS, the GFOA does not feel that infrastructure reporting and depreciation meets this criteria; and

WHEREAS, not only is the historical cost of an infrastructure asset irrelevant to decision making, but the allocation of that cost to subsequent periods in the form of depreciation expense is at best irrelevant, and at the worst misleading; and

WHEREAS, recently GFOA's Executive Board voted unanimously to oppose the mandatory reporting of infrastructure assets on the statement of position and also to oppose the depreciation of those assets.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lodi hereby opposes the Governmental Accounting Standards Board's plan to require mandatory reporting of infrastructure assets on the statement of position and further opposes the depreciation of those assets.

Dated: April 21, 1999

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I hereby certify that Resolution No. 99-59 was passed and adopted by the Lodi City Council in a regular meeting held April 21, 1999 by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Mann, Nakanishi, Pennino and Land (Mayor)
NOES: COUNCIL MEMBERS – None
ABSENT: COUNCIL MEMBERS – None
ABSTAIN: COUNCIL MEMBERS – None


ALICE M. REIMCHE
City Clerk

CITY COUNCIL

KEITH LAND, Mayor
PHILLIP A. PENNINO
Mayor Pro Tempore
SUSAN HITCHCOCK
STEVE MANN
ALAN NAKANISHI

CITY OF LODI

CITY HALL, 221 WEST PINE STREET
P.O. BOX 3006
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H. DIXON FLYNN

City Manager

JENNIFER M. PERRIN

City Clerk

RANDALL HAYS

City Attorney

March 26, 1999

Mr. Tom Allen, Chair
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

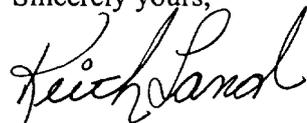
Dear Mr. Allen,

I am writing on behalf of the City of Lodi to express our deep concern regarding the Governmental Accounting Standards Board's (GASB) plan to require that infrastructure assets such as roads and bridges be reported and depreciated in the financial statements of state and local governments.

Our government is proud of its commitment to high quality financial reporting. At the same time, we see financial reporting as a means rather than an end in itself. That is to say, the cost of financial reporting must be justifiable on the basis of the practical benefits it provides. In our view, infrastructure reporting and depreciation, which would undoubtedly entail a significant investment of government resources, clearly do not meet this practicality test. Not only is the historical cost of an infrastructure asset completely irrelevant to decision making, but the allocation of that cost to subsequent periods in the form of depreciation expense is at best irrelevant, and at worst misleading. Nor could we support infrastructure reporting "options" that would effectively infringe upon our government's prerogative to make its own public policy decisions regarding expenditures for infrastructure as opposed to expenditures for other services to citizens.

Therefore, we urge the GASB in the strongest terms to pursue every possible means of eliminating or reducing the potentially significant costs associated with infrastructure reporting. By doing so, we are persuaded that the GASB would contribute immeasurably to the acceptance and ultimate success of the new governmental financial reporting model.

Sincerely yours,



Keith Land
Mayor