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Infrastructure

Dear Reader:

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We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Infrastructure

Reference Number: CTAS-1985

The GASB defines infrastructure as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure are bridges, roads, dams, and lighting systems.

Buildings usually are excluded from the definition of infrastructure assets unless they are an ancillary part of a network of infrastructure (i.e. a pump-house on a dam). Most small- and medium-size Tennessee counties will typically have at least two main types of infrastructure to capitalize, county-owned roads and bridges.

Except for counties with less then $10 million of total revenue in fiscal year ended June 30, 1999, all Tennessee counties must capitalize all major infrastructure on a retroactive basis. While the GASB encourages all counties, regardless of size, to retroactively capitalize infrastructure, counties under the $10 million threshold are allowed to capitalize infrastructure on a prospective basis (i.e. just new additions of infrastructure beginning with the year of Statement 34 implementation). When it issued Statement 34, the GASB set forth deadlines for local governments to retroactively report assets. While the GASB encouraged early implementation, Tennessee counties with more than $10 million but less then $100 million in total revenue in the first fiscal year ending after June 15, 1999, were supposed to capitalize all major infrastructure retroactively no later then June 30, 2007. Counties with less then $10 million in total revenue are encouraged, but not required, to retroactively capitalize infrastructure assets.

GASB Statement 34 requires counties to capitalize and report all county-owned infrastructure that exceed capitalization thresholds, at historical or estimated historical cost. The GASB recognized the challenge to determine an accurate historical cost in counties that are required to retroactively report assets. Therefore, counties are required to capitalize and report only major general infrastructure assets that were acquired (purchased, constructed, or donated) in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period.

Roads

Reference Number: CTAS-1986

One of the biggest challenges with capitalizing roads is how to determine the historical and/or estimated historical costs of these assets. Many county-owned roads have been maintained in the county for decades, or even more then a century, and have changed over time from a simple dirt road to a multiple-lane asphalt road with numerous upgrades and courses of maintenance.

The GASB considered this accounting challenge when it implemented Statement 34 and requires that counties retroactively report roads at actual or estimated historical cost only back to—

- Those acquired on or after July 1, 1980 or,
- The last time the road was upgraded (gravel to oil-and-chip, etc.) or,
- The last time the road was replaced or resurfaced in a way that it extended the original useful life of the road (i.e. not considered routine maintenance).

Example 1:
Blue County is trying to determine the historical cost for Turkey Town Road (a county-owned gravel road). The road has been a gravel road for at least 50 years. Every year, the county grades the road a couple times and drops a few loads of gravel (less than $100) on it for annual maintenance. As this road does not meet any of the requirements for capitalization (date acquired, no upgrades, only routine maintenance performed), county management chose not to capitalize this road.

Example 2:
Grey County is trying to determine the historical cost for Short Mountain Road (a county-owned oil-and-chip road). The road has existed for more than a hundred years. However, the road was gravel until 1994, when it was upgraded to oil-and-chip. Since this was the last major work project on this road, the county would determine an estimated historical cost (if actual cost was not known) for the cost of an oil-and-chip road and capitalize this amount as the road’s cost with the acquisition date of the road being 1994 (when it was upgraded).

Example 3:

Black County is trying to determine the historical cost for Biven's Hill Road (a county-owned asphalt road). The road has been an asphalt road for a number of years, however the road was resurfaced three years ago during a large repaving project. The original historic cost of the road would be determined at the time of resurfacing if the project extended the useful life of the road and was not considered routine maintenance. The original acquisition date for the road would be the date of this last major resurfacing.

Often when new subdivisions are finished, the roads within the subdivision are brought up to county road standards and donated to the county. The capitalization cost of these roads should be the actual or estimated fair value of the roads at the time of donation. If the developer refuses to disclose the cost of the roads, the GASB has determined that a county can use an accurate estimate (based on comparable road construction costs) for the value of the donated infrastructure. Management should be cautious if they use a cost estimate provided by a road builder not to include the builder's profit margin into the cost estimate for a donated road.

Right-of-ways and Other Easements

Reference Number: CTAS-1987

An easement is an interest in land that is owned by another entity that entitles its holder to a specific limited use or right. Right-of-ways and other easement rights for which the county did not incur a cost are not required to be capitalized. If the easements were paid for by the county, they should be capitalized by actual or estimated historical cost.

Example:
Blue County has right-of-ways for a certain distance on both sides of all county roads. The county did not pay for these easement rights and private property owners that live next to the roads actually pay property taxes on the land under the roads. Since Blue County did not pay for these easement rights and the rights would cease if the road was taken off the county road list (i.e. no longer a county asset), management has decided not to capitalize these easements as infrastructure

Bridges

Reference Number: CTAS-1988

County-owned bridges should be capitalized at historical or estimated historical cost and depreciated as infrastructure. The Tennessee Department of Transportation bridge inspection reports are an excellent source of information for determining the construction date and dimensions of most, if not all, county-owned bridges. If the actual historical cost of the bridge cannot be located, a county can use an estimated historical cost by using a deflation calculator to index current bridge construction cost back to the year of construction. All bridges acquired on or after July 1, 1980, and above the county's capitalization threshold should be capitalized. Major renovations and repairs that are not considered routine maintenance and upgrades to bridges that exceed the capitalization threshold, such as wood to concrete, should also be capitalized and depreciated.

Example 1:
Blue County has a bridge that was originally built with a wooden floor in 1945. The bridge was upgraded to a concrete span in 1985. The county implemented GASB 34 in 2006 and retroactively reported the bridge as a concrete span with an acquisition date of 1985 (when the upgrade took place).

Example 2:
Blue County has a concrete box-type bridge that originally was constructed in 1983. However, the bridge had extensive damage in a storm and had major repairs (that extended the bridge's original useful life) in 1993. The bridge would be capitalized with an initial acquisition date as of 1993 (the date of the major renovation).

Modified Approach to Reporting Infrastructure

Reference Number: CTAS-1989

Most, if not all, Tennessee counties report their infrastructure on an individual asset basis. However, the GASB allows for a modified approach for infrastructure reporting. Under the modified approach, counties still are required to perform an initial retroactive capitalization of county-owned infrastructure (if over the $10 million threshold mentioned previously). However, instead of annually depreciating each infrastructure asset, the county must calculate a “maintenance of effort” amount that reflects the current costs for preserving infrastructure in lieu of depreciation. Counties are discouraged from implementing the modified approach since use of this method requires a county to periodically engage independent engineering consultants to perform condition assessments and demonstrate that all infrastructure has been maintained at or above a prescribed level.

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