

# 2021 Brookings Municipal Finance Conference



## Discussion: Maintaining Maintenance, Ryan McDonough & Clair Yan

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The views expressed in this presentation are those of Mr. Mead.  
Official positions of the GASB are reached only after extensive due process and deliberations.

# Initial Thoughts

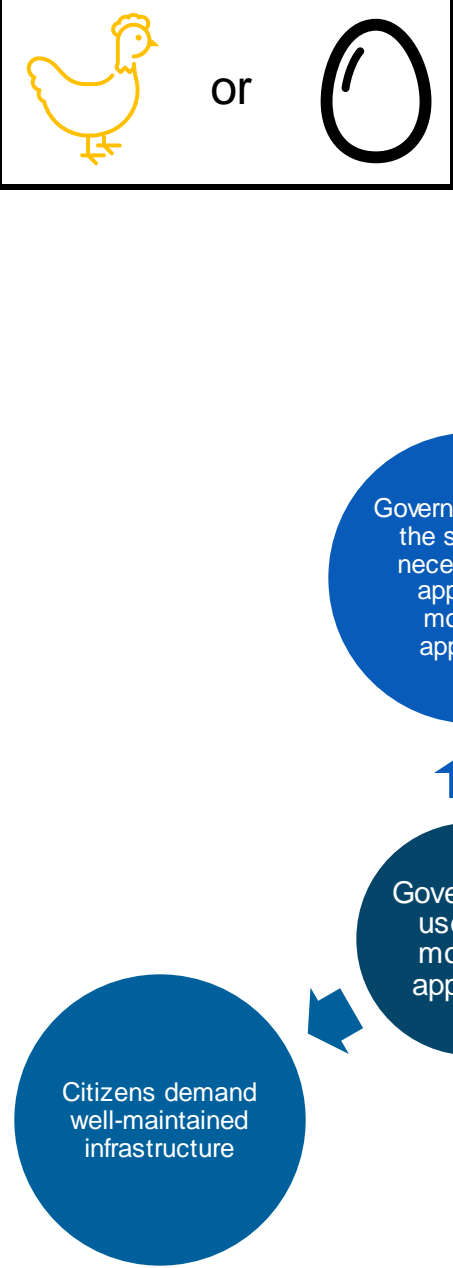
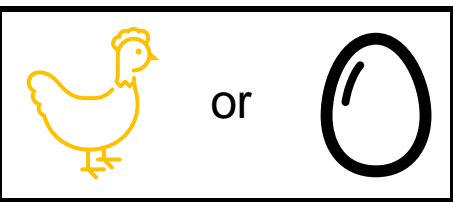
- ~~GASB standards result in better infrastructure conditions and less deferred maintenance~~
- The topic is timely both in terms of current policy discussions and the GASB's standards-setting agenda
- The paper demonstrates that research can be academically rigorous and stimulating while simultaneously having practical relevance to standards setting and public policy

# Recap

- Assertion: Higher financial reporting quality about infrastructure engenders more informed governments and stakeholders, which can improve monitoring of and budgeting for ongoing infrastructure investments
- Assertion: States using the modified approach (MA states) will be less likely to underinvest in infrastructure by deferring critical maintenance activities
- Assertion: MA facilitates improved monitoring of and budgeting for states' infrastructure maintenance decisions, making reductions and diversions of funds initially intended for infrastructure maintenance less likely.

# Recap (continued)

- Finding: On average, MA states invest more to maintain their infrastructure assets
- Finding: Smaller percentage of MA states' roads are in poor condition
- Finding: Smaller percentage of MA states' bridges are in structurally deficient
- Finding: MA states are less likely to enact a midyear budget cut to their general fund infrastructure spending
- Finding: MA states divert a smaller percentage of their motor fuel tax revenues to non-infrastructure purposes



Government has the systems necessary to apply the modified approach

Government is inclined toward spending on infrastructure maintenance

Citizens demand well-maintained infrastructure

Government uses the modified approach

# Conceptual Strength

“We...define financial reporting quality...as the degree to which a government’s financial report enables users (such as legislative and oversight bodies, citizens, and creditors) to make informed assessments of the extent to which a government has deferred infrastructure maintenance.”

- The conceptual objectives of financial reporting include enabling the public to assess the sufficiency of a government’s physical resources (deferred maintenance may be implicit)
- The authors’ definition is consistent with how the GASB evaluates its existing standards

# Takeaways for the GASB

- Further evidence of the decision-usefulness of the information reported by modified approach governments
- Nevertheless, optionality continues to be justified, at least with respect to whether all governments have the capacity to use the modified approach
  - Could the “depreciation” approach states successfully apply the modified approach? Perhaps, but doing so would highlight the relatively poorer physical condition of their highways and bridges and relatively smaller investment in those assets

# Takeaways for Policy Makers

- Transparency and accountability matter
- When given high-quality information, citizens and their representatives use it to express their policy preferences – in this case, for investment in the physical condition of roads and bridges
- In addition to reducing long-term infrastructure costs, maintenance spending also may reduce borrowing costs



# Thank You

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