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## Some Love for the Infrastructure We Already Have.

## Deferred maintenance is beginning to get the attention it needs.

Leaders in Washington, in both the executive and legislative branches, cite infrastructure as a top priority for the new Congress. All agree that the case for serious investment has been made. But while federal policymakers prepare to debate how they might provide more funding for new or improved infrastructure, state and local governments are beginning to tackle the long-neglected issue of deferred maintenance with money, muscle and spreadsheets.

This is an important development after decades of postponing scheduled upkeep and routine repairs on roads, schools, bridges and water lines as pleas for additional funding to maintain these critical workhorse assets were drowned out by the allure of new shiny-pony assets. More and more, public finance officials are taking stock of their existing assets, their condition and the costs to address the consequences of deferred maintenance. These efforts mark a profound change in focus.

One of the forces driving this change is the realization that current accounting practices do not require governments to recognize deferred maintenance obligations as liabilities on their balance sheets. This is similar to the dawning that took place about unfunded public pension obligations, which governments did not begin to book as liabilities until after Government Accounting Standards Board guidance to that effect was issued in 2012.

Like pension debt before, the cost of deferred maintenance has largely gone unmeasured and unreported, with staggering multi-trillion-dollar estimates repeated again and again. No one really knows, though, because there is no standard practice for defining, measuring and reporting deferred maintenance. This led credit ratings agencies to announce last summer that they would begin to focus on deferred maintenance in reviews of municipal debt levels.

Instead of waiting for regulatory directives, some state and local governments are already taking action. At the state level, Alaska, California, Hawaii, Tennessee and Utah, along with the District of Columbia, are among governments that are disclosing deferred maintenance obligations on their balance sheets and in annual financial reports.

To do so, they developed asset inventories and condition-assessment practices — the building blocks for tracking deferred maintenance needs — to make regular calculation of the costs they face in repairing and replacing the assets they own. While more work is needed to standardize how deferred maintenance is assessed, jurisdictions like these are leading the way toward clearer depictions of maintenance liabilities and more accurate municipal financial reporting.

Even better, credit agencies are rewarding governments for taking charge of deferred maintenance. Case in point: the District of Columbia. All three of the major credit rating agencies raised the District's credit rating on the strength of its plan to fund deferred maintenance, which was developed using D.C.'s centralized system for managing asset inventories, condition assessments and needs prioritization across all departments.

Infrastructure maintenance may never get its due beyond the credit rating agencies' lens — unless John Oliver does a sequel to "Infrastructure: The Movie" — but it is one of government's most critical obligations. Awards and fanfare are rare; maintenance projects are not often given names or tracked by industry market data providers. And our public finance officials are more used to fielding complaints about inconveniences caused by maintenance work than receiving thanks or credit for tackling it.

But there are plenty of deferred maintenance projects that deserve recognition. Here are just a few:

- Libraries: Against an accumulation of \$100 million in deferred maintenance needs, the Denver library system is using a \$31 million voter-approved bond issue to modernize the central library and the 10 of its 25 regional branches that have gone the longest without renovation. Soon, the some 2,600 patrons who use those branches every day will enjoy updated HVAC systems, elevators, computer access and other basics.
- Roads: The Louisville, Ky., Metro Council developed a "<u>fix it first</u>" strategy expressly to address deferred road maintenance needs. It resulted in 130 roads being repaved, besting all previous efforts. An additional \$190 million in street and sidewalk repairs is on deck.
- Levees: In addition to a \$100 million repair program dedicated to through-levee conduits that had been compromised by deferred maintenance, the California Department of Water Resources funded an experimental flood control project for the Dos Rios floodplain to test a methodology that reconnects rivers with natural floodplains. It changed hearts and minds not only in California but also in Mississippi and Missouri, where similar projects are now underway.

Notable projects across more infrastructure sectors can be found <a href="here">here</a>. These projects show that in an era of diminished budgets, public finance officials are making the case to taxpayers to take care of the assets we already have. They are increasingly advocating for using tax dollars to fix potholes, dredge port channels, replace pipes, modernize HVAC systems, paint schools, rehabilitate bridges, service parks, green wastewater systems, strengthen levees and fortify dams. Experience has shown that a hundred routine-maintenance projects will yield a much higher return on taxpayer money than any single big, new project ever will.

By taking responsibility for the assets that are delivering services taxpayers need and those that are no longer performing, public officials will be able to make smart decisions about which assets should be repaired, replaced or recycled based on long-term asset management strategies. More importantly, they will be better able to help taxpayers differentiate between fiscal responsibility and political folly in the dialogue on infrastructure.

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