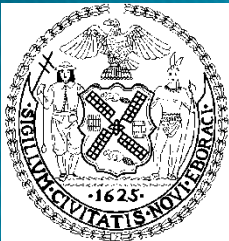


Cleaning Up the Mess: Case Studies in Accounting for Pollution Remediation

Pollution in NYC, or:
Brown Spots on the Big Apple



GASB 49 Case Study: New York City's Experience

Michele Mark Levine
Director of Accounting Services
New York City Office of Management & Budget
New York, New York
(212) 788-5804
LevineM@omb.nyc.gov

The views expressed in this presentation are those of the presenter and do not necessarily represent the views and opinions of The City of New York or The Office of Management and Budget.

GASB 49 Case Study: New York City's Experience

Lorna L. Stark
Partner
KPMG LLP
New York, New York
(212) 872-3396
lstark@kpmg.com

The views expressed in this presentation are those of the presenter and do not necessarily represent the views and opinions of KPMG LLP.

VERY BRIEF Review of GASB 49 Highlights

»» Refresher & Reference Slides

GASB 49 – Basics

- ▶ Requires recognition of a pollution remediation obligation (PRO) when one of five specified “obligating events” occurs.
- ▶ PROs are costs which are or will be incurred to address the current or potential detrimental effects of *existing* pollution by participating in remediation activities.
- ▶ PRO liabilities are:
 - Measured and recognized in components, when estimable
 - Measured using new “expected cash flow technique”.
- ▶ Costs incurred for pollution remediation may not be afforded capital treatment for accounting purposes (with limited exceptions).

Obligating Events

1. The government is compelled to take remediation action because of pollution-caused imminent endangerment leaving it little or no discretion to avoid action.
2. The government is in violation of a pollution prevention related permit or license.
3. The government is named, or evidence indicates it will be named, as responsible party or potentially responsible party for remediation (or cost sharing).
4. The government is named, or evidence indicates it will be named, in a lawsuit to compel the government to participate in remediation
5. The government voluntarily commences or obligates itself to commence remediation.

Pollution Remediation Activities

- Pre-cleanup activities such as site assessments and investigations, feasibility studies, and design of a remediation plan
- Cleanup activities such as neutralization, containment, disposal activities, and site restoration
- External government oversight and enforcement-related activities
- Operation and maintenance of the remedy and post-remediation monitoring

Benchmarks for PRO Recognition

- ▶ Receipt of an administrative order
 - Government may receive an administrative order compelling it to take a response action at a site or risk penalties
 - Such response actions may be relatively limited (such as the performance of a remedial investigation and feasibility study) or they may be broad (such as a remediation of a site)
 - Outlays associated with performing requisite work generally are estimable
- ▶ Participation in a site assessment or investigation
 - Government has been identified as a responsible party or a PRP and has agreed to pay all or part of study that will investigate extent of environmental impact of release or threatened release of pollutants
 - Total outlay associated with these studies is generally estimable.
- ▶ Completion of a corrective measures feasibility study
 - At substantial completion of the corrective measures feasibility study, both a range of remediation outlays and government's allocated share generally will be reasonably estimable
 - Corrective measures feasibility studies should be considered substantially complete no later than the point at which a proposed course of action to the regulatory authority be recommended

Benchmarks for PRO Recognition (continued):

- ▶ Issuance of an authorization to proceed
 - At this point, regulatory authority has issued its determination specifying a preferred remediation.
 - Normally the government and other PRP's have begun, or perhaps completed, negotiations, litigation, or both for their allocated share of remediation liability.
 - Estimates normally can be refined based on specified preferred remedy and a preliminary allocation of total remediation outlays

- ▶ Design and implementation of the remedy through post remediation monitoring
 - During this phase, the government develops a better understanding of work to be done and is able to provide more precise estimates of total remediation outlays.
 - Further information likely will become available at various points until site remediation work is completed, subjected only to post-remediation monitoring
 - Government should continue to refine its estimate of its liability as this additional information becomes available.

Capitalize Remediation Costs Only When Incurred:

- To prepare property in anticipation of a sale (only up to estimated fair value of property,)
- To prepare property for use when the property was acquired with known or suspected pollution expected to be remediated (only outlays necessary to place asset in location and condition for use)
- To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment (only outlays expected to be necessary to place asset in location and condition for use)
- To acquire property, plant and equipment that has a future alternative use (only to the extent of post-remediation service utility)

New York City and GASB 49

»» The City “Nitty – Gritty”

Overview

- ▶ What we learned
 - Reported pollution remediation liabilities and expenditures in first year
- ▶ How we learned it
 - Approach to Implementation and On-going Reporting Use a project centered approach: focusing on planned remediation in the City's Budgets and Financial Plans
- ▶ FY 2010 Updates to the Process

NYC's Initial GASB 49 Results

- ▶ NYC Implemented GASB 49 for its FYE June 30, 2009, as required; no early implementation.
- ▶ Reported year-end PRO of \$176 million in Long-term Liabilities
 - In addition to \$1.7 billion of landfill closure and post-closure costs already reported in accordance with GASB 18
- ▶ Reported pollution remediation expenditures of \$236 million were made during 2009.

NYC's Initial GASB 49 Results

- ▶ **Liability was not huge relative to other City obligations**
 - Recognition criteria and obligating events in standard limit scope – PRO not reflective of “all pollution everywhere” in City
- ▶ **Reported current year pollution remediation expenditures of \$236 million**
 - Current year expenditures higher than opening liability of \$173 million
- ▶ **Logical conclusion: we clean-up what needs to be cleaned-up when we know about it.**

NYC GASB 49 Implementation and On-going Reporting

- ▶ Use a project-centered approach: focusing on planned remediation in the City's Budgets and Financial Plans
- ▶ Educate, then rely on City agencies to identify and report current pollution remediation activities and future remediation plans
- ▶ NYC OMB and Comptroller's Office personnel worked with a CPA firm Consultant on Implementation

“Follow the Money” (or requests for money) to find the pollution

- ▶ Look at what agencies *have or seek to add to current* capital projects budgets (and non-recurring items in expense budgets)
 - Ask: Is this a remediation project?
 - Ask: Is there any remediation *embedded in* this project?
 - soil remediation for new construction/new use of property
 - asbestos and/or lead-paint remediation in building renovations/expansions
- ▶ Not exhaustive, but a good place to start!

A Systematic Approach

- ▶ NYC OMB and Comptroller's Office personnel worked with a CPA firm Consultant to:
 - Evaluate GASB 49 and plan implementation
 - Educate and consult with agency personnel about GASB 49 and pollution remediation activities
 - Develop a policies and procedures manual for agencies
 - Develop a survey tool to:
 - Gather information about potential pollution remediation obligations
 - Facilitate (automate?) evaluation & quantification for reporting.

Evaluate GASB 49 and plan implementation

- Reviewed Standard and Implementation Guidance from GASB and obtained clarification where needed
 - Auditors, Consultants and/or GASB technical inquires
- Identified sources of information
 - Focused on “Hard Hat” agencies/departments
 - Capital and expense budgets
 - Legal Counsel (internal & external)
 - Environmental Coordinator
- Planned Approach
 - Educational/informational meetings with agencies
 - Manual and Survey tool

Educate and Consult with Agencies about GASB 49

- ▶ Meetings with small groups of agencies
 - Allows for substantive discussion
- ▶ Explain requirements of GASB 49 and approach to implementing
- ▶ Ask about pollution remediation activities of the agency
 - General nature of remediation
 - Current and expected projects
 - Existence and source of obligation
 - Estimating of costs:
 - Inquire about current approach
 - Explain “Expected Cash Flows” technique in GASB 49

Policies and Procedures Manual

- ▶ Purpose: Document actions to be taken by agencies to comply with GASB 49
- ▶ Restatement of the standard's requirements in language applicable to agency operations
- ▶ Communicate related policies adopted by the City Comptroller
- ▶ Detailed instructions for identifying and reporting to Comptroller's Office and OMB – Completion of Survey Tool

Survey Tool for Centralized Reporting

- ▶ Purpose: Build and maintain an “inventory” of potential PROs for evaluation and tracking
- ▶ Developed a spreadsheet-based data collection survey for agency completion that will permit evaluation and summarization for financial reporting and budgetary purposes
- ▶ Tool is used annually to collect current information on all projects with pollution remediation

Survey Tool for Centralized Reporting

- ▶ Manual and Survey used first at mid-year to collect PRO opening-balance information
 - Asked agencies to review a draft policies and procedures manual and complete survey spreadsheets for FYE June 30, 2008
 - Allowed us to “beta test” and “debug”
 - Clarified instructions where needed
 - Corrected spreadsheet formulas
- ▶ Required “final” 2008 and 2009 GASB 49 Survey submission in time for preparation of Financial Statements and Audit.

Components of Survey Tool

- ▶ Certification
- ▶ Project Inventory
- ▶ Obligating events and capital eligibility
- ▶ Project Data
- ▶ Cost of Activity
 - Original Estimates
 - Adjustments
- ▶ Recoveries
- ▶ Obligation quantification
- ▶ Budgetary Estimates

Obligating Events and Capital Eligibility

- ▶ Type of remediation
- ▶ Obligating events
- ▶ Conditions resulting in capital treatment
 - Purchase with known pollution
 - Pollution caused decline in service utility
- ▶ Potential recoveries

Functionality of Survey Tool

- ▶ Agency level completion
 - Detailed instructions for each worksheet
 - No redundancy in data entry
 - Minimize fields requiring agency data entry
- ▶ Linked spreadsheets within single workbook
- ▶ Formulas locked to prevent data entry errors
- ▶ City Comptroller reviews and summarizes for financial reporting

Lessons Learned

- ▶ Lack of understanding or experience with exceptions to capital treatment
- ▶ Identification of additional scenarios not addressed by the Tool
- ▶ Additional data needed for budgetary purposes

FYE 2010 Updates – Policies and Procedures

- ▶ We are making some further refinements to our agency manual and survey tool:
 - Expect to expressly exclude “routine” testing we believe is not within scope of GASB 49
 - Request additional information pertaining to asset impairment (one of the exceptions permitting capitalization of certain costs)
 - Require some additional projections for financial planning purposes

FYE 2010 Updates – Survey Tool

- ▶ Develop a macro to pre-populate and “lock” prior year project information
 - Eliminate need for agencies to re-enter or “cut and paste” previously provided information
 - Prevent agencies from “rewriting history”

- ▶ Provide for agency changes/updates to:
 - Estimates of projects’ total costs
 - Occurrence of obligating events
 - Indicate that all remediation has been completed and paid for

Questions?

