GASB 49 – Accounting & Financial Reporting for Pollution Remediation Obligations

An Overview
Effective

- For UMS - **FY09**
- Requires retroactive application if possible.
Pollution Remediation Obligation Defined

- An **obligation** to address the current or potential detrimental effects of existing **pollution** by participating in pollution remediation **activities**. For example, obligations to clean up spills of hazardous wastes or hazardous substances and obligations to remove contamination such as asbestos are pollution remediation obligations.” Pollution remediation obligations do not include pollution prevention or control obligations with respect to current operations or fines, penalties and other non-remediation outlays.
Objective of the New GASB Statement

• Enhance usefulness and **comparability** of information

• By setting uniform standards requiring
  – More **timely** and
  – **Complete** reporting of **pollution** remediation obligations
GASB 49 Does not Apply To:

1. Landfill closure & postclosure care obligations.
2. Other **future** pollution remediation activities that are required upon retirement of an asset during the periods **preceeding** the retirement. (May apply at time of retirement.)
3. Recognition of asset impairments or liability recognition for **unpaid claims** by insurance activities.
4. Pollution **prevention or control** obligations with respect to current operations or to **fines, penalties, &** other nonremediation outlays.
5. Accounting for **nonexchange** transactions, such as brownfield redevelopment **grants**.
Recognition Threshold

• Determine whether one or more **components** of a pollution remediation obligation are recognizable as a **liability** when…
  – Government **knows or reasonable believes** that a site is **polluted**, and
  – An **obligating event** occurs
GASB 49 Applies to:
Pollution Remediation Obligations

• Obligations to address the:
  – *current* or *potential* detrimental *effects*
  – of *existing pollution*
  – by *participating* in pollution remediation activities.
Pollution Remediation Activities

Include:

1. **Pre-cleanup activities** (e.g., site assessment, site investigation, corrective measures feasibility study, & design of remediation plan)

2. **Cleanup activities** (e.g., neutralization, containment, or removal & disposal of pollutants, & site restoration)

3. External government **oversight & enforcement** related activities (e.g., work performed by environmental regulatory authority dealing with the site & **chargeable** to the UMS)

4. **Operation & maintenance of the remedy**, including required monitoring of the remediation effort (postremediation monitoring)
Recognition & Measurement of Pollution Remediation Liabilities

Incorporates the following interrelated features:

- *Obligating Events*

- *Components and Benchmarks*

- *Measurement, Including the Expected Cash Flow Technique*
5 Obligating Events

When UMS knows or reasonably believes that a site is *polluted*, UMS should determine whether 1 or more *components* of a pollution remediation obligation are *recognizable* as a liability when any of the following events occurs:
5 Obligating Events

1. Compelled to take action because of an **imminent endangerment** to public health or welfare or environment.
2. **Violates** a pollution prevention-related **permit or license**.
3. **Named** (or will be) **by a regulator** as a responsible party or potentially responsible party for remediation.
4. Named (or will be) in a **lawsuit** to compel participation in pollution remediation.
5. **Commences**, or **legally obligates** itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort.
Obligation (In a Nut Shell)

• GASB believes that recognition should not occur until an **obligating event** occurs.
• Pollution **remediation** generally is not required unless a site is **known to be polluted**, and
• Governments often are not required to determine whether a site is polluted unless there is an **indicator of pollution** at levels that would require remediation.
Recognition Benchmarks

• Liabilities s/b recognized as the ranges of their **components** (e.g., legal services, site investigation, or required postremediation monitoring) becomes **reasonably estimable**.

• The range of an estimated liability often will be **defined** & periodically **refined** as different stages in the remediation process occur.

• At a minimum, the **estimate** of a pollution remediation liability s/b **evaluated** as each of these benchmarks occurs:
Benchmarks (cont.)

& Refining the Liability

1. Receipt of an administrative order – such as to take response action (e.g., remedial investigation and feasibility study) at a site or risk penalties.

2. Participation, as a responsible party or PRP, in the site assessment or investigation.

3. Completion of corrective measures feasibility study.

4. Issuance of an authorization to proceed.

5. Remediation design & implementation, through and including operation and maintenance, and postremediation monitoring.
Measurement

• **Based on Expected Outlays.** Liabilities should be measured based on the pollution remediation **outlays** expected to be incurred to settle those liabilities.

• **Measurement at Current Value.** Should be based on **reasonable** and **supportable** assumptions about future events that may affect the eventual settlement of the liability.

• **Measurement of the Expected Cash Flow.** Measures liability as the sum of **probability – weighted** amounts **in a range of possible estimated amounts** – the estimated mean or average.
Expense or Capitalize?

• Except as provided on the next slide, pollution remediation outlays (including PP&E), should be recorded as expense when a liability is recognized.
Capitalization of Pollution Remediation Outlays:

1. To prepare a property in anticipation of a sale.
2. To prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated.
3. To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment.
4. To acquire PP&E that have a future alternative use after pollution remediation activities.
F/S Disclosure

• For **recognized** pollution remediation liabilities and recoveries, must disclose:
  – The **nature & source** of pollution remediation obligations,
  – The **amount** of the estimated liability, &
  – The **methods & assumptions** used for the estimate,
  – The **potential for changes** in estimates, &
  – Estimated **recoveries** that reduce the liability

• A **general description** of the nature of pollution remediation activities for liabilities that are **not** reasonably estimable.
MDNA

• May be required to disclose the effects of pollution remediation obligations in MDNA, including:
  – Important economic factors,
  – Whether commitments significantly affect the availability of fund resources for future years,
  &
  – Significant capital asset & L-T debt activity during the year.
Transition

- If UMS has sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods, then should apply GASB 49 retroactively.
- Otherwise, apply provision as of the effective date, but liabilities should be measured at the beginning of that period to ensure the beginning net assets can be restated.