INFRASTRUCTURE CAPITALIZATION PROCEDURE

PROCEDURAL STATEMENT:

Governmental Accounting Standards Board (GASB) 34 requires public agencies to capitalize infrastructure assets on their financial statements for periods beginning after June 15, 2001. This procedure identifies the categories and treatment types for pavement and bridge that denote capitalization of our infrastructure assets versus those preserving ODOT’s infrastructure.

AUTHORITY:

Governmental Accounting Standards Board’s Statement 34

REFERENCES:

Governmental Accounting, Auditing and Financial Reporting; Government Finance Officers Association
Guide to Implementation of Governmental Accounting Standards Board’s Statement 34
GASB 34 Matrix of Infrastructure Reporting

SCOPE:

This procedure is applicable to the Divisions of Finance, Planning, Contracts, Production, as well as, District Planning and Program Administrators.

BACKGROUND AND PURPOSE:

The purpose of the procedure is to provide instruction and background information necessary to identify projects that should be capitalized to comply with GASB 34. To comply with GASB 34 requirements, ODOT will adopt the policy of capitalizing pavement and bridge expenditures that result in additions to capacity (including structural capacity) or increase the asset efficiency. In the case of asset replacements, the original cost of the asset replaced will be removed and replaced with the cost of the replacement asset. Only those treatments under major rehabilitation, and new construction work will be capitalized. As part of its GASB 34 infrastructure capitalization policy, ODOT will adopt a minimum capitalization threshold of $500,000. Projects with a total cost less than $500,000 will be expensed even though they may otherwise meet the capitalization criteria.
Preservation costs are those costs that extend the useful life of an asset beyond its original useful life but do not increase its capacity or efficiency. The modified method requires that such costs be expensed. Treatments under preventive maintenance, reactive maintenance, and minor rehabilitation work categories will be expensed.

GASB 34 requires establishment of acceptable condition levels for infrastructure assets. ODOT’s established GASB 34 minimum acceptable condition level for bridges is a general appraisal rating of 5. It is the intention to not allow more than 15% of deck area to fall below this level. ODOT’s established GASB 34 minimum acceptable pavement condition rating (PCR) level is 65 for priority system paving and 55 for general system paving. ODOT’s intention is to not allow more than 25% of either system to fall below the acceptable PCR level.

**DEFINITIONS:**

**Asset Management Information form** - The form completed by the Districts and submitted with the project information. The form provides the percentages to be applied to project expenditures as they are incurred to provide for accurate infrastructure financial reporting.

**Capitalize** - To record an expenditure as a capital asset rather than an expense. Capitalized expenditures include new construction or major rehabilitation/replacement which results in additions to capacity or increase in asset efficiency. ODOT has adopted a minimum threshold capitalization policy for infrastructure of $500,000.

**Expense** - To record an expenditure as an expense to current operations (as opposed to capitalizing the expenditure). Included in the expense category would be preservation/maintenance costs that extend the useful life of an asset but do not increase its capacity or efficiency.

**GASB 34** - Governmental Accounting Standards Board issued Statement 34 covering infrastructure reporting requirements.

**Governmental Accounting Standards Board (GASB)** - An organization established in 1984 to establish generally accepted accounting standards for state and local governments. GASB operates with oversight from the Financial Accounting Foundation.
Infrastructure Capital Assets - Infrastructure capital assets are long-lived capital assets that normally 
can be preserved for a significantly greater number of years than most capital assets that normally are 
stationary in nature. Examples of infrastructure assets include roads and bridges. Buildings, except 
those that are an ancillary part of a network of infrastructure assets such as rest areas, are not 
considered infrastructure assets.

Modified Approach - An alternative to depreciating infrastructure assets. The modified approach 
recognizes that such assets are routinely preserved (or renewed) so as to indefinitely extend useful life. 
Under this approach, preservation (or renewal) expenditures are expensed rather than being 
capitalized and the original cost of improvements and additions to the asset are not depreciated.

Treatments - The specific repair method to be used.

Work Categories - The type of work which determines the magnitude of the repairs needed.

Procedure:

The specific treatments under each of the aforementioned work categories follow:

**PAVEMENT**

**Paving Capitalization Work Categories and Treatments**

**Category: Major Rehabilitation** - Major rehabilitation is performed when pavement condition is such 
that minor rehabilitation is no longer feasible. It is required when the PCR falls below 55 or the 
structural deduct is 25 or greater and/or minor rehabilitation is no longer economical. Major 
rehabilitation projects are designed for twenty year equivalent single axle load (ESAL) projections and 
may involve complete removal and replacement of the existing pavement structure with new and/or 
recycled materials in order to re-establish the strength of the pavement.

**Treatment:** (same for Major Rehabilitation and New Construction)

- Unbonded Concrete Overlay
- Crack & Seat
- Rubblize & Roll
- Whitetopping
- Removal and Replacement

Section 600 Major Rehabilitation, of the Pavement Design and Rehabilitation Manual should be 
referred to for a further description of major rehabilitation treatments.
Category: New Construction - This category is intended to capture construction of entirely new structures/routes. This category does not include rehabilitating old structures/routes (thru replacement, full depth repair, etc.). Examples of New Construction - 1) Construction of a Bypass where a By-Pass did not previously exist. 2) Construction of a new route where an old route did not previously exist.

Treatment: New Pavement

Paving Expense Work Categories and Treatments

Category: Preventive Maintenance - The application of one or more treatments, generally to the surface of an existing roadway in structurally sound condition with a PCR rating between 75 and 85 (or as otherwise defined by the Pavement Office), to preserve the roadway; retard future deterioration; and maintain or improve the functional condition of the system without substantially increasing structural capacity (from FHWA 1996). Preventive maintenance techniques performed outside of the prescribed Preventive maintenance PCR ranges are considered Reactive Maintenance.

Category: Reactive Maintenance - Also referred to as Corrective Maintenance: These activities are undertaken to correct defects and extend the serviceability life of the pavement until such time that a proper rehabilitation or replacement project may be undertaken. Reactive maintenance is frequently performed on pavements that are failing. It is a stopgap approach that keeps the road open, but is rarely thought of as contributing to long-term pavement performance.

Treatment:

<table>
<thead>
<tr>
<th>Asphalt Surfaced Pavements</th>
<th>PPC Surfaced Pavements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crack Sealing</td>
<td>Joint Reseal/Crack Seal</td>
</tr>
<tr>
<td>Microsurfacing</td>
<td>Undersealing</td>
</tr>
<tr>
<td>Chip Seals</td>
<td>Retrofit Load Transfer</td>
</tr>
<tr>
<td>Mill and Fill (Inlay)*</td>
<td>Diamond Grinding (Grinding only or with minimal repairs)</td>
</tr>
<tr>
<td>Thin HMA Overlays**</td>
<td></td>
</tr>
<tr>
<td>Drainage System Preservation</td>
<td>Drainage System Preservation</td>
</tr>
<tr>
<td>Full Depth Repair (Small quantities)</td>
<td></td>
</tr>
</tbody>
</table>

* Fill approximately same thickness as mill
** Overlay generally 1 ½" or less, includes Polymer Modified Sand Asphalt Overlays
Category: Minor Rehabilitation - Work performed on a pavement intended to restore functional characteristics and protect the structural integrity. This work is undertaken to extend the service life of an existing roadway surface which has deteriorated beyond the point at which preventive maintenance is effective. Minor rehabilitations are designed for twelve year ESAL projections and usually consist of some combination of milling, repair and overlay.

Treatment:

   Mill and Fill (Pavement thickness after rehab. should be greater than the thickness prior to rehabilitation)
   Overlay - Frequently referred to as resurfacing
   Repair - Which includes Full Depth Repair and Joint Repair
   Concrete Pavement Restoration - Which includes Full and Partial Depth repair,
      Diamond Grinding*, Joint Resealing, Crack Sealing and Undersealing

* Grinding with significant repair

Rest Areas: Work related to rest areas is classified under pavement and should be capitalized or expensed in accordance with the other provisions of this policy.

BRIDGES

Bridge categories designate a type of bridge as opposed to a work category. Of the treatments listed below, those expenditures in bold font (001, 002, 003, 004, and 005) will be capitalized. Capital treatments should result in increased capacity or efficiency. For example, a superstructure or deck replacement may result in increased structural capacity. If the cost does not result in an increase in capacity or efficiency, it should be expensed.

Category: Major Bridge - Deck area greater than 9,000 sq. yds., Length over 1,000 ft., Twin bridges with combined deck area greater than 15,000 sq. yds., Continuous/Cantilever Truss Bridges, Bridges spanning the Ohio River, All moveable bridges, all suspension bridges

Bridge - All State System Bridges excluding Major Bridge, ODNR, Turnpike, and Non-Highway bridges not maintained by ODOT

Treatment:

General
001 Structure (New)
002 Structure (Replacement)
003 Superstructure (Replacement)
004 Deck Replacement
005 Structure Widening
006 Graffiti Removal

Deck Surface - Continued
045 Deck Skid Resistance Retrofit
046 Deck Cathodic Protection
047 Deck and Abutment Seat Clean
048 Expansion Joint Repair/Replace
049 Deck Patching (Concrete)
<table>
<thead>
<tr>
<th>Superstructure</th>
<th>Substructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>020 Painting Structural Steel</td>
<td>080 Foundation Stabilization</td>
</tr>
<tr>
<td>021 Spot Painting Structural Steel</td>
<td>081 Channel Drift Removal</td>
</tr>
<tr>
<td>022 Structure Steel Repair</td>
<td>082 Slope Repair &amp; Protection</td>
</tr>
<tr>
<td>023 Fatigue Retrofit</td>
<td>Installation</td>
</tr>
<tr>
<td>024 Pin and Hanger Retrofit</td>
<td>083 Scour Prevention and Correction</td>
</tr>
<tr>
<td>025 Bearing Reset/Replaced</td>
<td>084 Pile Encasement</td>
</tr>
<tr>
<td>026 Overhead Conc Spall Removal</td>
<td>085 Pier Replacement/Repair</td>
</tr>
<tr>
<td>027 Bridge Diapering Installation</td>
<td>086 Abutment Replacement/Repair</td>
</tr>
<tr>
<td>028 Drainage System Clean/Repair</td>
<td>087 Channel Clean Out</td>
</tr>
<tr>
<td>029 Backwall Replacement/Repair</td>
<td>099 Substructure (Other)</td>
</tr>
<tr>
<td>039 Superstructure (Other)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Deck Surface</th>
<th>Approach</th>
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</thead>
<tbody>
<tr>
<td>040 Deck Overlay (Concrete)</td>
<td>100 Approach Slab Replace/Repair</td>
</tr>
<tr>
<td>041 Deck Overlay (Asphalt Conc)</td>
<td>101 Appr Rdwy Grd Profile Correct</td>
</tr>
<tr>
<td>042 Deck Overlay (Asph Conc w/Wp)</td>
<td>102 Approach Railing Repair</td>
</tr>
<tr>
<td>043 Deck Overlay (Epoxy)</td>
<td>103 Pressure Relief Joint Install</td>
</tr>
<tr>
<td>044 Deck Overlay (Other)</td>
<td>119 Approach (Other)</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Structure Type Culvert</th>
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<tbody>
<tr>
<td>120 Culvert Invert Repair</td>
<td></td>
</tr>
<tr>
<td>121 Tunnel Liner Installation</td>
<td></td>
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<tr>
<td>139 Culvert (Other)</td>
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<table>
<thead>
<tr>
<th>Structure Type Culvert - Non-Bridge</th>
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<tbody>
<tr>
<td>141 Culvert Replace (Non-Bridge)</td>
<td></td>
</tr>
<tr>
<td>142 Culvert New (Non-Bridge)</td>
<td></td>
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<tr>
<td>143 Culvert Extension (Non-Bridge)</td>
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<tr>
<td>144 Culvert repair (Non-Bridge)</td>
<td></td>
</tr>
<tr>
<td>159 Culvert (Other) (Non-Bridge)</td>
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</tbody>
</table>
APPURTENANCES

Category: Miscellaneous - This category is used to account for activities that do not change the structural integrity of pavements or bridges. The original costs of appurtenances should be capitalized while replacements and repairs of appurtenances should be expensed. Examples of appurtenances include signing, lighting, noise walls and retaining walls.

Capital Treatments:

Original costs of signing, lighting, noise walls and retaining walls

Expense Treatment:

Replacement costs of signing, lighting, retaining walls, guardrails, noise walls, environmental, etc.

OTHER

The “other” category includes projects not directly related to pavement or bridges, or projects that the Department is not responsible for reporting or maintaining. Certain county and township roads and bridges are not the responsibility of ODOT and must be reported by the responsible political subdivision. Projects pertaining to such roads and bridges should be classified as “other”. An example is a state highway in a municipality with a population over 5,000; it is the responsibility of the municipality. ODOT is responsible for all interstates. The cost of land, easements and right of way is not considered infrastructure and should be classified as “other”.

The State Auditor’s Office has prepared a matrix (see references sections) to aid in determining which political subdivision is responsible for reporting various roads and bridges.

Projects for mowing, bike paths, herbicide treatments, parking lots at ODOT buildings or state parks and railroads should also be reported as other.

The Asset Management Information Form (AMIF) (see Exhibit A) is a document initiated and submitted by the Districts with project information. The form provides the percentages to be applied to project expenditures as they are incurred to provide for accurate infrastructure financial reporting. Instructions for completion of the AMIF (Exhibit B) are attached.

TRAINING

Technical training on GASB 34 is an ongoing objective. Technical training is essential for both District Planning and Programming personnel and Division of Finance personnel.
FISCAL ANALYSIS:

Implementation of this procedure may have a fiscal impact to ODOT. Statement 34 establishes methods for governments to be more accountable to bond market analysts, underwriters, citizens, legislators, and other financial users. The statement provides for a comprehensive understanding of a government’s financial position, making transparent the ability to repay long term debt and deal with infrastructure maintenance obligations. It provides the financial community better data to support their assessment of credit worthiness, enhances the review of the long term capital plan of an individual state or local government and may serve as a foundation for future bond ratings and increases in user fees.