

# Governmental Accounting Standards Board (GASB), Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligation (GASB No. 49)

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## **Accounting and Reporting for Pollution Remediation Obligations**

GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB No. 49), provides guidance on accounting and financial reporting for pollution remediation obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. This statement is effective for financial statements for period beginning after December 15, 2007.

## **Exceptions to Reporting Pollution Remediation Obligations**

The statement **does not apply to** the following:

- Prevention or control obligation with respect to current operations such as obligations to install smokestack scrubbers, treat effluent, or use environment-friendly products
- Future pollution remediation activities that are required upon retirement of an asset such as power plant decommissioning
- Landfill closure and post-closure costs in the scope of GASB No.18
- Recognition of asset impairments or liability recognition for unpaid claims by insurance activities.

## **Pollution Remediation Obligations**

Pollution remediation obligation – is an obligation to address the current or potential detrimental effects of existing pollution remediation activities. The examples of the pollution remediation activities include obligations to clean up spills of hazardous wastes or hazardous substance and to remove contamination such as asbestos, superfund sites.

Pollution remediation activities include:

- Pre-cleanup activities – includes site assessment, site investigation, corrective measures feasibility study, and design of remediation plan
- Cleanup activities – this includes neutralization, containment, or removal and disposal of pollutants, and site restoration
- External government oversight and enforcement-related activities – includes work performed by an environmental regulatory authority dealing with the site and chargeable to the government
- Operation and maintenance of the remedy –includes required monitoring of the remediation effort (post remediation monitoring).

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## **Pollution Remediation Activities Outlays**

The following are all direct costs attributable to pollution remediation activities:

- Payroll and benefits,
- Equipment and facilities,
- Materials, and
- Legal and other professional services.

Indirect costs such as general overhead cost can also be included as part of pollution remediation activities.

The following costs cannot be included as part of the pollution remediation: fines, penalties, toxic torts (civil wrongs arising from exposure to a toxic substance), product and process (workplace) safety outlays, litigation support with potential recoveries, and outlays borne by society at large rather than by the government.

## **Obligating Events**

If the State agency/departments knows or reasonably believes that a site is polluted, the State agency/department must assess the following conditions to determine if an obligating event has occurred. If *any one or more* of the following events occurred, the State agency/department must recognize a pollution remediation obligation:

- The government (State agency/department) is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment, leaving it or discretion to avoid remediation action.
- The government (State agency/department) is in violation of a pollution prevention-related permit or license, such as a Resources Conservation and Recovery Act (RCRA) permit or similar permits under state law.
- The government (State agency/department) is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government (State agency/department) is named, or evidence indicates that it will be named, in a lawsuit to compel the government to participate in remediation.
- The government (State agency/department) commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should

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be based on the portion of the remediation project that the State agency/department has initiated and is legally required to complete.

## **Benchmark**

The statement requires that the pollution remediation liabilities should be recognized as the ranges of their components become reasonably estimable. When insufficient information is available to reasonably estimate the ranges of all components of the liability, the State department/agency should recognize pollution remediation liabilities as the range of each component of the liability (e.g., legal services, site investigation, or required post remediation monitoring) becomes reasonably estimable.

In situations when the State agency/department is able to reasonably estimate a range of all components of its liability early in the process because the site situation is common (e.g., the remediation for underground leaking storage tanks), the entire estimated liability should be recognized at this point.

## **Measurement**

GASB No. 49 requires that the pollution remediation liabilities should be measured based on the pollution remediation outlays expected to be incurred to settle those liabilities. If the State agency/department uses another party to perform the work, the profits and the risk premiums that another party demands in order to perform the pollution remediation activity should also be included in the measurement.

The pollution remediation liabilities should be measured at their current value. The current value of a pollution remediation liability should be based on the reasonable and supportable assumptions about the future events that may affect the settlement of the liability. This includes: applicable federal, state, or local laws or regulations that have been approved, regardless of their effective date, and the technology that is expected to be used for the cleanup.

When measuring pollution remediation liabilities using the expected cash flow technique, the measurement of the liability is the estimated mean or average of a range of possible estimated amounts.

## **Re-measurement**

GASB No. 49 requires that the pollution remediation obligation should be adjusted when the benchmarks are met or new information indicates changes (increase/decrease) in estimated outlays.

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## Accounting for Recoveries

Under expected cash flow technique pollution remediation liability should include all remediation work that the State agency/department expects to perform and reduce the liability and associate expenses by the amount of expected payments from other parties or insurance recoveries.

The expected recoveries from insurance that is not yet realized or realizable should reduce the measurement of the State agency/department's pollution remediation liability. The recoveries that are realized or realizable should be recognized separately from the liability as recovery of assets (i.e. cash or receivables).

## Capitalization

Pollution remediation outlays are generally reported as an expense when a liability is recognized. However, per GASB No. 49 pollution remediation outlays should be capitalized in any of the following circumstances:

- a. To prepare property in anticipation of a sale. Only the amounts that would result in the carrying amount of the property not exceeding its estimated fair value upon completion of the remediation should be capitalized.
- b. To prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated. Only pollution remediation outlays that are necessary to place the asset into its intended location and condition for use should be capitalized.
- c. To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment. Only pollution remediation outlays that are necessary to place the asset into its intended location and condition for use should be capitalized.
- d. To acquire property, plant, and equipment that has a future alternative use. Outlays should be capitalized only to the extent of the estimated service utility that will exist after pollution remediation activities have ceased.

**If your agency/department has determined to have pollution remediation obligation, please complete the "Pollution Remediation Obligation Worksheet" and submit to DAR GAAP Reporting at [SGR@sco.ca.gov](mailto:SGR@sco.ca.gov), or mail to Division of Accounting and Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816.**