



International Perspectives & Looking Forward: What's Next for the U.S.? *Asset Valuation Perspectives*

TAMC 2020 Virtual Fall Transportation Asset Management Conference

October 29, 2020

Overview

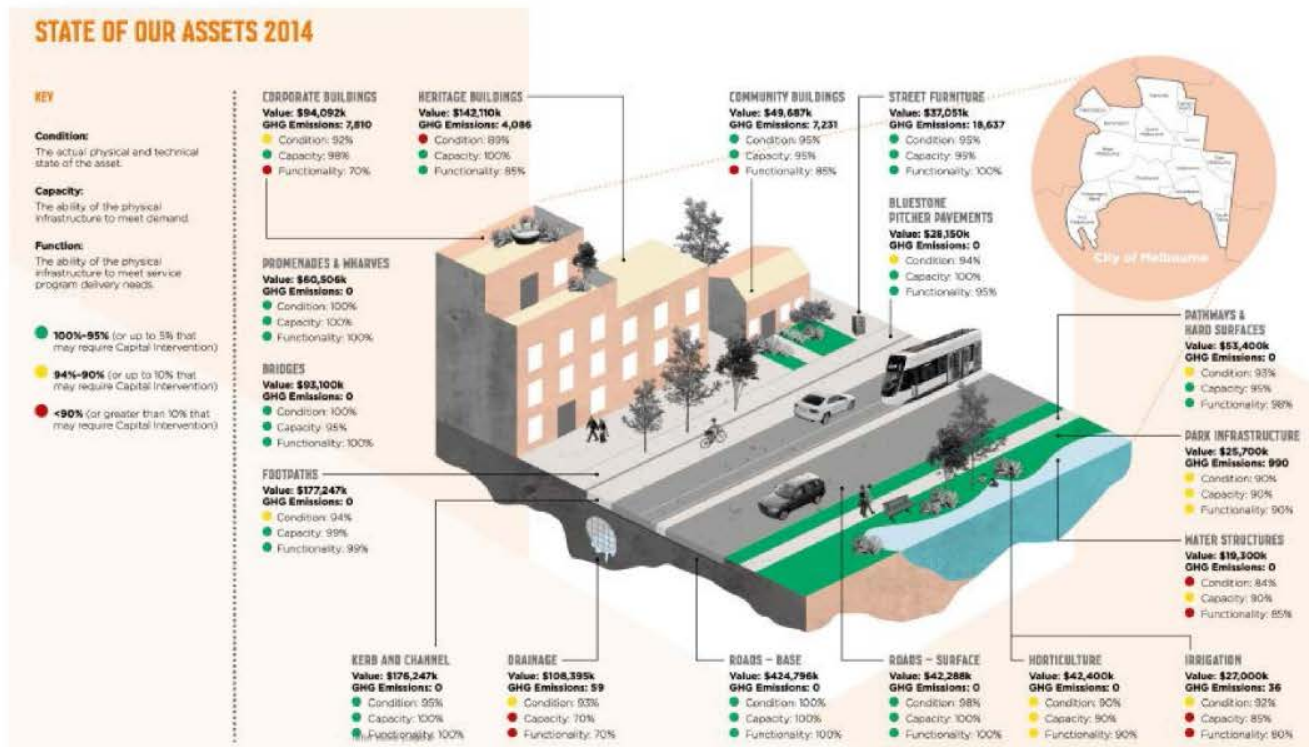
- **Asset Valuation**
 - Context
 - Approaches
 - Challenges
 - Case Studies



Asset Valuation

Context

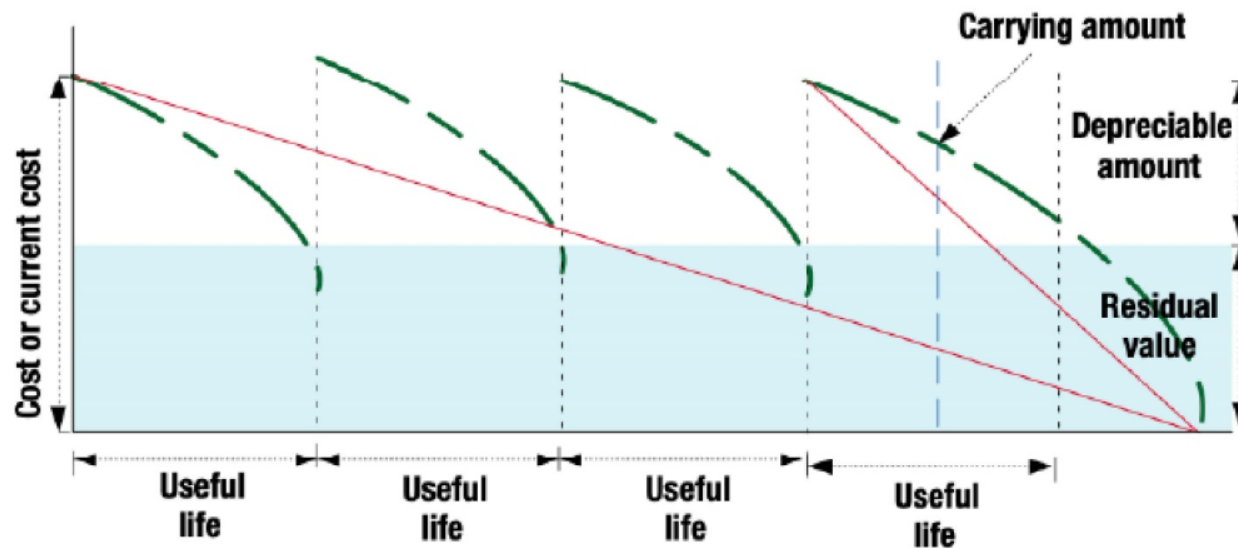
- Asset valuations can:
 - Communicate what an organization owns
 - Establish trends related to an asset registry (inventory)
 - Support scenario analysis for different funding levels



Source: City of Melbourne Asset Management Strategy. City of Melbourne, 2014.

Challenges

- Asset valuations do present challenges:
 - Differing philosophies, standards, and applications of an asset's value
 - Need to balance simplicity and complexity
 - Limitations of any one particular metric or approach to asset valuation



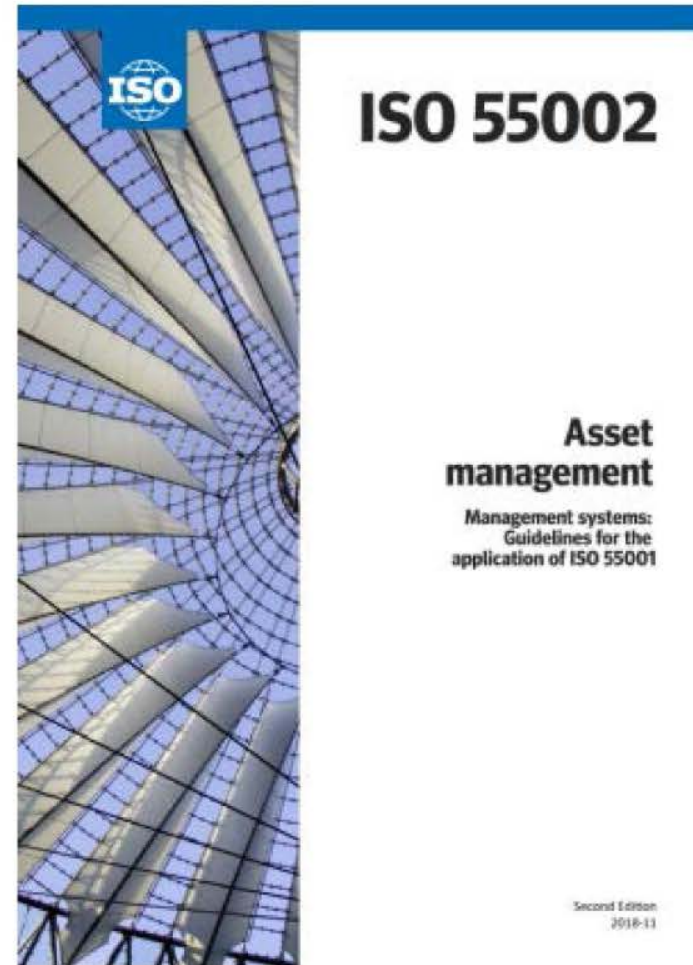
Source: Edgerton, D. Valuation and Depreciation: A Guide for the Not-for-Profit and Public Sector Under Accrual-Based Accounting Standards. CPA Australia, 2013. .

Approaches to Valuation

- **Cost-Based Approaches:**
 - Based on cost of purchase or construction of an asset
 - Potentially with adjustments for inflation and / or depreciation of an asset's value
- **Economic-Based Approaches:**
 - Estimate the value of an asset's yield to: the owning organization, the asset customers / users, and / or society as a whole
 - May involve benefit-cost analysis
- **Market-Based Approaches:**
 - Based on the price of an asset in the market
 - Market(s) may or may not exist for certain asset types

ISO 55002:2018

- ISO 55002:2018 Asset management – Management systems – Guidelines for the application of ISO 55001
 - Concepts of value determination (“*value of*”) versus value generation (“*value from*”)
 - Valuation for purposes of an asset’s sale is “*value of*”
 - Valuation based on benefits derived from use of ownership of assets is “*value from*”
- Asset owner’s typically make investment decisions based on “*value from*” not “*value of*”



Case Study – City of Ottawa

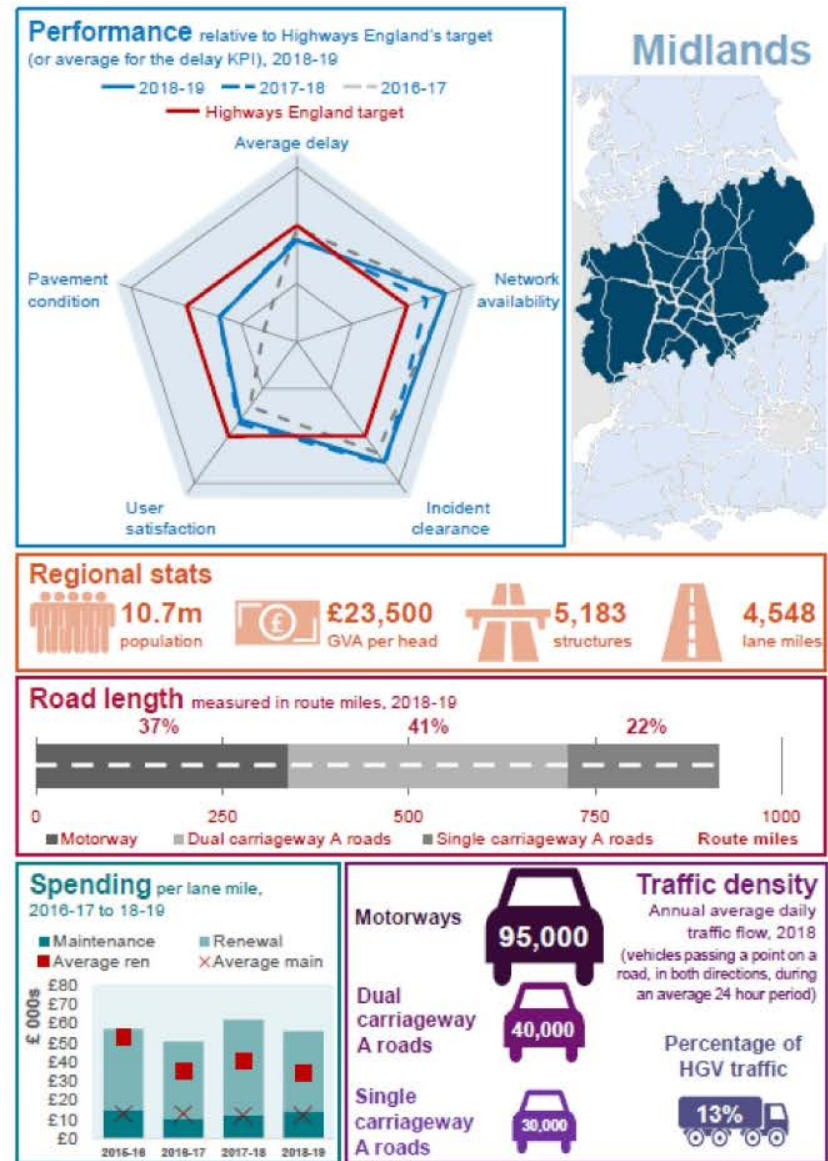
- Province of Ontario legislation requires all municipalities to prepare an infrastructure asset management plan for all core infrastructure
 - Current State of the Infrastructure report including a summary of replacement value, current condition, rate of depreciation, and residual value (cost-based approach)
 - State of the Infrastructure provides useful snapshot
- City of Ottawa leader in developing a comprehensive asset management program – systematic approach to making infrastructure investments

Service	2017 Status		2012 Status	
	Asset Replacement Value	Overall Condition Rating	Asset Replacement Value	Overall Condition Rating
Water	\$ 7,465 M	Good-Fair	\$ 6,638 M	Good
Wastewater	\$ 7,193 M	Fair-Good	\$ 5,678 M	Good-Fair
Stormwater	\$ 6,296 M	Good-Fair	\$ 4,670 M	Good-Fair
Solid Waste	\$ 59 M	Good-VG		
Transit	\$ 1,980 M	Fair-Good	\$ 1,951 M	Good-Fair
Transportation	\$ 12,612 M	Fair	\$ 11,076 M	Fair
Parks, Rec and Culture	\$ 2,232 M	Fair	\$ 1,970 M	Fair
Libraries	\$ 126 M	Good	\$ 94 M	Good
Social Services	\$ 3,032 M	Good-Fair	\$ 176 M	Good-Fair
Fire	\$ 291 M	Fair	\$ 313 M	Good-Fair
Paramedic	\$ 44 M	Good		
Bylaw	\$ 13 M	Fair		
Police	\$ 148 M	Fair	\$ 257 M	Fair
Corporate Services	\$ 338 M	Fair-Poor		
Information Technology	\$ 123 M	Fair		
Overall Summary	\$ 41,953 M	Fair-Good	\$ 32,823 M	Fair-Good

Source: City of Ottawa. [The State of Assets Report](#). 2017.

Highways England

- Highways England has greater decision-making powers and longer-term funding to manage the Strategic Road Network
 - Independent monitoring and enforcement (Office of Rail and Road) to review and help ensure performance and efficiency
- Economic-based approach to deliver performance
 - Average spend per lane mile fluctuates – reduced in 2018-19 compared to 2016-17
 - Requires detailed performance metrics and routine monitoring



Office of Rail and Road. Regional Dashboards. Benchmarking Highways England. [2019 Progress Report](#).

Case Study – Large Utility

- Cost-based approach: clean the fixed asset register (FAR)
 - Implementation of a new financial management system
 - Need to reconcile differences between the FAR and other ledgers
 - Corrected negative assets and other errors prior to transition to new system
- Led development of new approaches to asset valuations
 - Established more effective asset valuations in terms of depreciations, replacement values, and new asset values
- Cost accounting-focused approach to ensure correct balances
 - Potential tax, credit rating, and other implications (e.g., write-offs)



Thank you



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