



Office of the Washington State Auditor

Center for Government Innovation

Identifying Asset Retirement Obligations in Washington

Overview

Local governments reporting under generally accepted accounting principles (GAAP) will need to implement [Governmental Accounting Standards Board \(GASB\) Statement No. 83](#) over asset retirement obligations (AROs), which is effective for reporting periods beginning after June 15, 2018 (earlier implementation is encouraged). While accounting standard research and implementation is solely the responsibility of local government officials, we are providing the following information to help local governments identify possible asset retirement obligations. To implement this accounting standard, we suggest local governments:

- Consider the information provided in this resource to help identify assets that might have associated retirement obligations. However, this list might not include all such possible assets. It is also focused on state laws and regulations that might be unique to Washington.
- Review assets owned and research what disposition requirements might be involved. This might include:
 - Conversations with operational staff
 - Review of contracts such as lease agreements that might contain contractual obligations
 - Consideration of license and permit terms and requirements
 - Inquiries of state or federal oversight agencies
 - Other legal research to understand laws and regulations pertaining to how assets must be disposed of or decommissioned
- Resolve any questions with GASB using its [technical inquiry](#) process
- Consider other resources about implementing new accounting standards. These resources are available on our website at [//portal.sao.wa.gov/PerformanceCenter/](http://portal.sao.wa.gov/PerformanceCenter/)
 - [Best practices for implementing new accounting standards](#)
 - [Checklist for accounting standards changes](#)

Consider the following assets that might have an associated ARO (subject to the exclusions in paragraph 6):

- **Asbestos in buildings** – There are special disposal requirements for materials containing asbestos that are used in building construction. Materials containing asbestos must be handled and disposed of following specific requirements in accordance with the EPA National Emission Standards for Hazardous Air Pollutants (NESHAP 40 CFR 61 Subpart M). Additional and more stringent requirements might be imposed by a local clean air agency, Department of Ecology, and Department of Licensing. However, our understanding from conversations with GASB is that most asbestos obligations likely are excluded from Statement 83 due to scope exclusions in paragraph 6c, B11, and also guidance in paragraph 10a that refers to contamination resulting from the normal operation of a tangible asset.
- **Cell or communications tower lease agreements** – Governments typically act as the lessee in these agreements. In these circumstances, removal obligations would typically be specified in the contract to be the responsibility of the private party/lessor. However, individual circumstances should be evaluated if the government assumes responsibility.
- **Coal or other hazardous material export terminals** – These facilities may be subject to federal or other environmental regulation and terms of various licenses and permits, as well as hazardous materials statutes that fall under Department of Ecology authority. If a government leases out its property to a private party to use as an export facility, an asset retirement obligation might be part of the lease agreement.
- **Coal strip mines or ash ponds** – Our office is not aware of any coal strip mines or ash ponds owned by governments in Washington. These would be regulated by the Department of Ecology.

- **Dams or hydroelectric facilities (produce electricity)** – The Federal Energy Regulatory Commission (FERC) regulates dams that produce electricity, and a decommissioning plan is required as part of a surrender process at the dam’s end of life. However, end of life might not be determinable for many dams, particularly those that potentially last hundreds of years and for which the municipality plans to maintain potentially in perpetuity. Other factors that might prompt end of life include political pressures to remove it and situations where the economics are questioned (i.e., the dam is not generating sufficient revenues or energy to justify the maintenance costs).
- **Dams (non-electric producing)** – Decommissioning requires special permits from the Department of Ecology and is likely subject to other environmental regulations and permits. There are about 1,200 dams regulated by Department of Ecology, with over 20 percent owned by local governments. If you are not sure whether your local government owns any dams, you might review Department of Ecology’s dam inventory report at ecology.wa.gov/Water-Shorelines/Water-supply/Dams.
- **Distribution and transmission line systems** – There might be an asset retirement obligation; consider the following circumstances:
 - According to the Washington State Utilities and Transportation Commission, some lines go over federal or state owned lands, and these agencies can have requirements regarding removal. Governments should review their easement agreements for potential removal obligations.
 - If a local government opted in for the State of Washington Energy Facility Site Evaluation Council to approve these systems, decommissioning requirements apply (RCW 463.72).
- **Leased assets** – An asset retirement obligation might exist for either the lessor or lessee, but usually not both. The terms of all lease agreements should be reviewed and evaluated.
- **Natural gas storage** – Our Office is not aware of any natural gas storage owned by governments in Washington. These would be regulated by the Department of Natural Resources.
- **Nuclear research reactors and materials** – These are subject to the Nuclear Regulatory Commission and other oversight agencies such as Department of Health (RCW 70.98).
- **Oil wells** – Our Office is not aware of any oil wells owned by governments in Washington. These would be regulated by the Department of Ecology.
- **Power generation plants** – Our understanding is that unlike hydroelectric facilities, the Federal Energy Regulatory Commission (FERC) does not have regulatory oversight over these types of facilities. However, the State of Washington Energy Facility Site Evaluation Council

might have regulatory oversight depending on whether the regulations in WAC 463.72 apply to the facility. For these facilities, there are decommissioning requirements. In addition, dependent upon the facility, Department of Ecology also might impose decommissioning requirements under various permits or the hazardous materials laws, WAC 173-303. However the exclusions within Statement 83 should be carefully evaluated to determine if this is an ARO. Owners of these facilities should consider all relevant federal, state, and local laws that might affect decommissioning. Some additional considerations might include:

- **Natural gas plants** might have decommissioning obligations as they use water and might tap into water reservoirs. See the information on wells.
 - **Geothermal plants** generally use steam generated by the earth; due to drilling and exposing natural earth surfaces, they will likely have decommissioning requirements. While none currently exist in Washington, there are plans for several in the near future.
 - **Wind and solar facilities** use a substantial amount of heavy metals, which might have special decommissioning requirements. There are new mandatory requirements for recycling rooftop installations in RCW 70.355.
 - **Wind facilities** encompass large areas and environmental laws might exist to protect the migratory patterns of birds. These might also have an associated asset retirement obligation if the land is leased and the lease agreement requires the lessor to perform land reclamation or other decommissioning activities.
- **Radioactive machines** – This might include equipment used in college research facilities or hospitals such as teletherapy or brachy therapy units. These are regulated by the Department of Health under RCW 70.98.
 - **Research facilities** – These facilities, such as at colleges and universities, might contain radioactive machines (RCW 70.98), and other potential hazardous materials (Department of Ecology, WAC 173-303) that require special disposition. See radioactive machines and nuclear research reactors information above.
 - **Sewage treatment plants** – These might have decommissioning requirements as part of the National Pollutant Discharge Elimination System (NPDES) permit upon a facility’s closure, if applicable. Decommissioning requirements can be very dependent on the facility, its age, complexity, location, and the extent of hazardous material (such as bio-solids, sludge, bio-contaminated material). Local governments should consider Department of Ecology permits and requirements in evaluating decommissioning requirements.
 - **Sewer lagoons (including those part of a sewer treatment plant)** – Department of Ecology requires permits to operate the lagoons, and does not allow a local government to discharge into the groundwater. Therefore, at the end of the lagoon’s useful life it will have to be decommissioned (to avoid the eventual failure of the liner and discharge into the groundwater).
 - **Surface mining such as sand, gravel or dredge spoil stock areas** – Reclamation is required at the end of life by Department of Natural Resources under the Surface Mining Act

(RCW 78.44). The Department maintains an inventory of mining operations; however, the information online is not up to date. www.dnr.wa.gov/programs-and-services/geology/energy-mining-and-minerals/surface-mining-and-reclamation.

- **Underground fuel storage tanks** – These are monitored and regulated by the Department of Ecology. Disposition requirements can be found in WAC 173-360A-0810. If unexpected ground contamination occurs, the Model Toxic Control Act (WAC 173-340) would apply and be subject to GASB Statement No. 49 for pollution remediation. If contamination occurs as part of the normal operation, this would relate to GASB Statement No. 83. The Department of Ecology maintains an online inventory of the tanks at [//ecology.wa.gov/Spills-Cleanup/Contamination-cleanup/Underground-storage-tanks](http://ecology.wa.gov/Spills-Cleanup/Contamination-cleanup/Underground-storage-tanks).
- **Water treatment plants** –Department of Ecology could impose requirements within the dangerous waste permit for the facility (WAC 173-303) upon a facility’s closure. For example, there might be chemicals, chlorine tanks, and coagulant material. The requirements will depend on aspects of the facility such as its complexity, location, age and size. It is our understanding that unless there is an order from the Department of Health, there are no pre-determined requirements for decommissioning from the Department of Health.
- **Wells** – Department of Ecology has information online about decommissioning water wells, which cannot be abandoned without taking decommissioning steps. Regulations include WAC 173-160-381, WAC 173-162, and RCW Chapter 18.104 for the Washington Well Construction Act. Open loop heat exchange wells associated with buildings are also classified as water wells and require decommissioning. Department of Ecology also has decommissioning requirements for resource protection wells (often used for monitoring or environmental sampling) as per WAC 173-160-460.
- **X-ray and MRI machines** – These machines produce radiation when they have an electric power supply but otherwise have no radioactive source. They contain heavy metals such as lead, gold, silver or mercury for which state and federal hazardous waste regulations apply (see WAC 173-303-071 and Department of Ecology publication 92-91, page 39).

Other resources

Julie Desimone of Moss Adams published an article on asset retirement obligations in January 2018: www.mossadams.com/getmedia/7f758400-c7de-4f8d-9bc0-c138b88265e1/0118-Accting/

Additional information

This resource has been developed by the Center for Government Innovation of the Office of the Washington State Auditor. Please send any comments, suggestions, or questions to center@sao.wa.gov. However, questions relating to decommissioning requirements should be directed to regulatory agencies. In addition, questions related to technical interpretations of the accounting standard should be directed to the [GASB technical inquiry](#).

Disclaimer

This resource is informational only and does not represent prescribed accounting and reporting for state and local governments. As laws, regulations, and contracts change, governments might come to different conclusions regarding decommissioning requirements and legal obligations. While this resource presents information about assets with possible retirement obligations, it is not intended to be a complete list of all potential assets or intended to be a conclusive analysis. Governments are solely responsible for performing their own research and implementing new accounting standards appropriately. Decommissioning requirements described above represent our Office's understanding based on contact with various agencies; however, governments should confirm information about their own assets and legal requirements before drawing conclusions.