

Asset Management for Local Officials

This fact sheet will help you understand:

- The basics of asset management for local officials.
- Local officials' vital role in successfully implementing an asset management program.

This fact sheet is intended for local officials who are directly or indirectly involved in decisions affecting water systems.

Asset Management

Asset management is maintaining a desired level of service for what you want your assets to provide at the lowest life cycle cost. Lowest life cycle cost refers to the best appropriate cost for rehabilitating, repairing, or replacing an asset. Asset management is implemented through an **asset management program** and typically includes a written **asset management plan**. Water systems need asset management to:

- Address aging water infrastructure assets before they fail.
- Keep assets productive, and not allow them to become disruptive liabilities.
- Treat all decisions as investment decisions to maximize limited financial resources.
- Make costs transparent to support financial decisions.

Asset management requires:

- Support and involvement of local officials who have the authority and willingness to commit public resources and personnel to maintain community assets.
- A commitment of time and money to make cost-effective asset decisions (spending some money in the short-term to save more money over the long-term).
- A team made up of key decision makers.

Improving Service and Maintaining Infrastructure Through Asset Management

A sustainable water service delivers safe, clean water to its customers' satisfaction while managing infrastructure assets to maximize their useful life. An asset management plan will help you "tell the story" of water system assets to the community in a way that is understandable. Small systems that have simple asset management plans can benefit as much as large systems that have complex plans. Asset management will enable your system to:

- Have more efficient and focused operations.
- Choose capital projects that meet the system's true needs.
- Base rates on sound operational decisions.
- Improve its financial health.
- Reduce environmental violations due to failed or poorly performing assets.
- Improve the security and safety of infrastructure assets.

The Five Core Questions Framework for Asset Management

A good starting point for any system are five core framework questions, which walk you through all of the major activities associated with asset management.

1. What is the current state of my system's assets?

Your water system's assets are part of your community's total assets. A decline in the value of your infrastructure indicates insufficient funding of asset management.

2. What is my required "sustainable" level of service?

Knowing your required "sustainable" level of service will help you implement an asset management program and communicate to stakeholders what you are doing. The required level of service is the basis for justifying your user rates.

The Five Core Questions of Asset Management (cont'd)

3. Which assets are critical to sustained performance?

Identifying critical assets will help you make decisions about resource allocation and about maintaining or improving your sustainable level of service.

4. What are my life-cycle costs?

Knowing the answer to this question will help your system move from a passive “fix-it-when-it-breaks” posture to an active program of preventive maintenance and timely asset replacement.

5. What is my best long-term financing strategy?

Knowing the full economic costs and revenues generated by your water system will help determine the system's financial forecast. The financial forecast can then provide needed information in making decisions regarding long-term funding strategy.

Accounting For Your Assets

The Governmental Accounting Standards Board's Statement #34 (GASB 34) revises several accounting and financial reporting practices for state and local governmental entities including publicly-owned water systems. If your water system is publicly owned, you will need to follow GASB 34 requirements to obtain a "clean opinion" (i.e., a good credit rating) from an auditor. Without a clean opinion, you may face higher interest rates on loans and bonds and may be more closely scrutinized by regulators and public officials. Following GASB 34 standards will require publicly-owned water systems to report the value of infrastructure assets and the cost of deferred maintenance. An accurate and up-to-date asset management plan will help you comply with this requirement.

Key Role for Local Officials: Building Community Support

Successfully implementing an asset management program means overcoming potential barriers by including the community in the process. **Local officials are key players in successful asset management programs because they are uniquely positioned to address these challenges.** Barriers to implementing an asset management program may include:

- Expecting to see immediate results.
- Changing from a focus on operations to a focus on assets.
- Paying for short-term costs to achieve long-term savings.
- Reconciling a short-term focus (e.g., rate increases) with long-term view of system sustainability.

These barriers can be overcome by building community support for asset management's emphasis on planning as a means for cost-effective infrastructure investment. An asset management plan is an effective way to communicate your strategy and work. In order for your system to gain community support, your customers should:

- Understand what you do.
- Believe that what you do has value.
- See that the way you work meets the agreed-upon level of service.

Asset management helps you:

- Share information with your customers.
- Describe the risks of not maintaining system components.
- Communicate your system's requirements.
- Justify rehabilitation, repair, and replacement project priorities.
- Justify your long-term financial plan to the public.

Implementing an asset management program will allow you to start having a sustainable water service that will maximize the useful lives of assets, be financially self-supporting, and protect public health and the environment.

For additional information: Call the Safe Drinking Water Hotline at 1-800-426-4791, visit the EPA Web site at <http://www.epa.gov/safewater/smallsystems> or contact your state drinking water representative.