ASSET MANAGEMENT: THE HARDEST PART

Steven Grimm | Wastewater Technician

Up to now, the asset management process has been fairly easy and straight forward (fairly easy should not be confused with "without effort"). A good deal of effort goes into the asset inventory and criticality assessment, and a great deal of thought SHOULD go into the level of service agreement. Now comes, arguably, the hardest part of an asset management plan, the long term funding strategy. Hard since it means you must first look at your fiscal situation and second, make adjustments to ensure long term sustainability. In case you're wondering, this probably means rate adjustments (increases).

A funding strategy of continuously saying "we don't have money for that" until that asset fails and then looking for grants to repair or replace the asset is not a funding strategy. That form of "strategy" not only puts the facility at risk for consent orders and fines for non-compliance but also places the burden of paying for these emergencies on the backs of the rate payers in the form of large rate increases. Having a sustainable long term funding strategy in place will help to assure the proper management, operation and maintenance of the facility, deliver the desired level of service to the customers and help keep rate increases to a minimum.

When developing a long term funding strategy, two categories of funding sources are utilized, internal funding and external funding. Each source has its own purpose. Internal funding is for day to day operation and maintenance of the facility, as well as repaying debt, and comes from user rates and fees. External funding comes in the forms of loans, grants and bonds and is for capital improvements.

As stated above, internal funding comes from user rates and fees. A sustainable internal funding strategy is one that has a sufficient revenue stream to cover not only the day to day operation and maintenance costs (salaries, utilities, supplies etc) but also pay any debt service, routine repairs, replacements and emergency expenses. Capital improvement funding often comes with some form of a municipal match. That match also comes from internal funds. A comprehensive rate analysis will tell if you are sustainable or not.

External funding is for capital improvements that may not be fully funded through internal funds. Loans, grants and bonds are the typical sources for these funds. Grants, the preferred funding source, have been decreasing in size and number, and have become highly competitive. The availability of grants alone should not be the determining factor for your capital improvement project. By determining the actual need for a project, and sizing it accordingly to your needs will help to reduce the cost and make the funding more affordable.

No one wants to raise rates, yet an effective and sustainable long term funding strategy dictates the need to evaluate and adjust rates accordingly. An operations and maintenance plan outlining and projecting routine costs associated with operating and maintaining the facility will aid in determining a proper rate structure. A capital improvement plan identifying critical assets that will need replacing in the future will help in scheduling and securing funding for the future project(s). Having an effective and sustainable long term funding strategy in place will enable you to evaluate and adjust rates incrementally over time, thus avoiding sticker shock.