



Municipal Finance Officers' Association of Ontario 2006 Annual Conference

Implementation of an Asset Management Plan

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Municipal Infrastructure Deficit – The Facts...

The Canadian municipal infrastructure deficit:

- **Estimated at \$50 - \$60 billion**
- **Growing at \$2 - \$3 billion a year**



Municipal Infrastructure Deficit – The Facts...

Recent headlines:

- Hamilton - “...faces a **\$500 million infrastructure deficit** over the next 10 years”
- Edmonton - “the tab is **\$3.2 billion and rising** over the long-range plan”
- Winnipeg - “has a **backlog of \$188 million this year** for infrastructure upgrades”
- Halifax - “has a **\$150 million infrastructure deficit**”
- Montreal - “estimated water and wastewater infrastructure deficit of **\$4 billion** over next 20 years”



Municipal Challenges

There are many...

- Increasing municipal funding burdens
- Limited sources of available funding
- Short term political cycle
- Lack of complete understanding of current infrastructure stock and asset condition
- “Financial information gap”



Financial Information Gap

“Financial information about the stock and use of infrastructure must be at the forefront of public sector decision making”

- Accounting for Infrastructure in the Public Sector (Canadian Institute of Chartered Accountants, 2002)

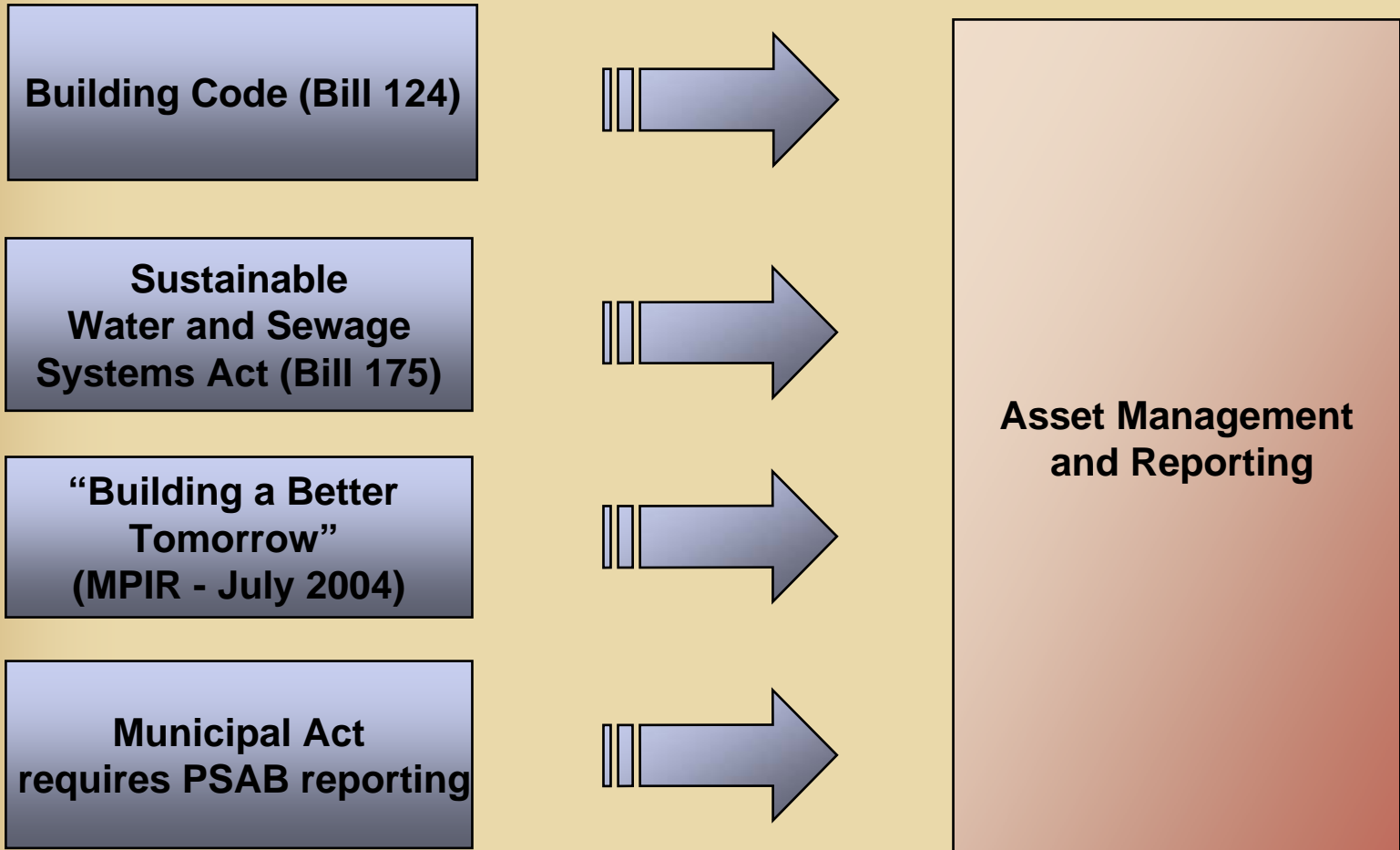


What is Asset Management?

- Described as a systematic process of maintaining, upgrading and operating physical assets cost-effectively
- Combines engineering principles with sound business practices and economic theory
- Provides tools to facilitate a more organized, logical approach to decision making



Why Should You Do It?





What's the Real Reason?

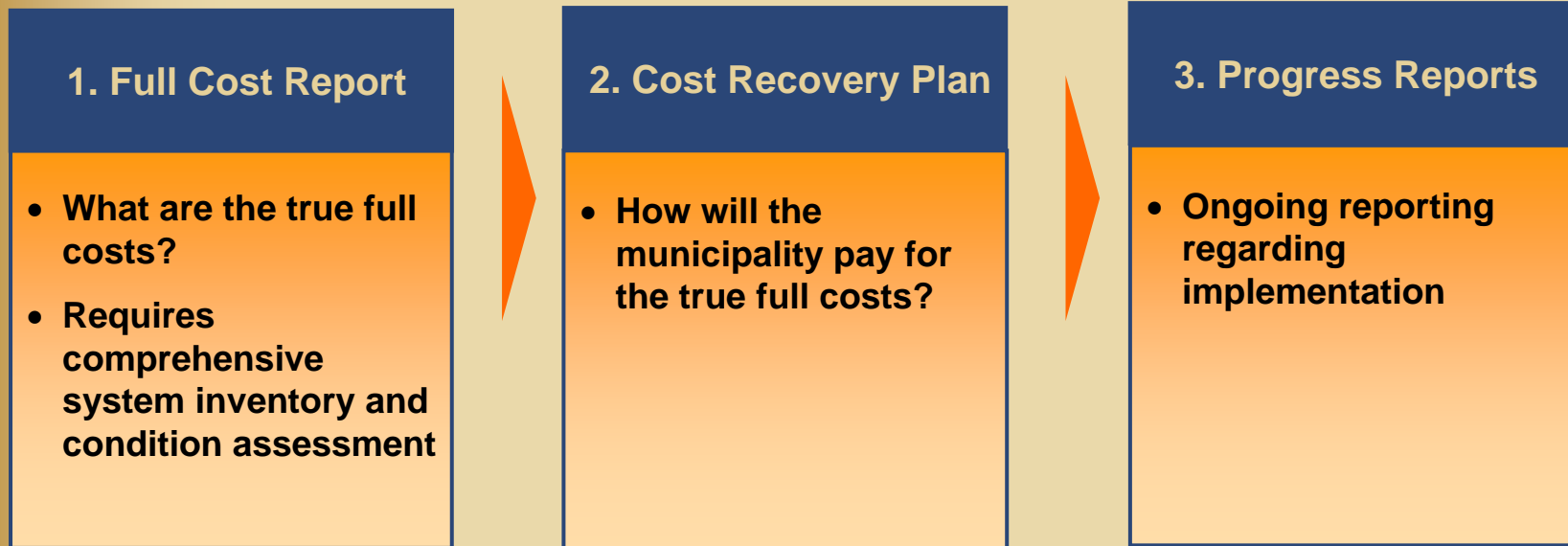
A few benefits:

- Facilitates the establishment of policy objectives and measurement of performance
- Provides better and consistent levels of service to the public, at less cost
- Allows for better decisions regarding resource allocation
- Reduces risk to the municipality
- Leads to more effective communication with ratepayers, elected officials, and financial rating organizations



Impact of Sustainable Water and Sewage Systems Act (Bill 175)

Ensure that water and wastewater systems generate sufficient revenue to recover fully all of the long-term operating and capital costs required to provide residents with clean, safe water





Asset Implementation Plan

Prepare a business case that outlines the expected costs directly related to preparing and implementing the asset management plan and the benefits of implementation

- Should identify the short and long-term objectives
- A work plan
- Roles and responsibilities
- Schedule
- Budget for various milestones
- Deliverables



Essential Elements

What do you have and where is it? (*inventory*)

What is it worth? (*Historical costs/replacement cost*)

What is its condition and remaining service life? (*life cycle*)

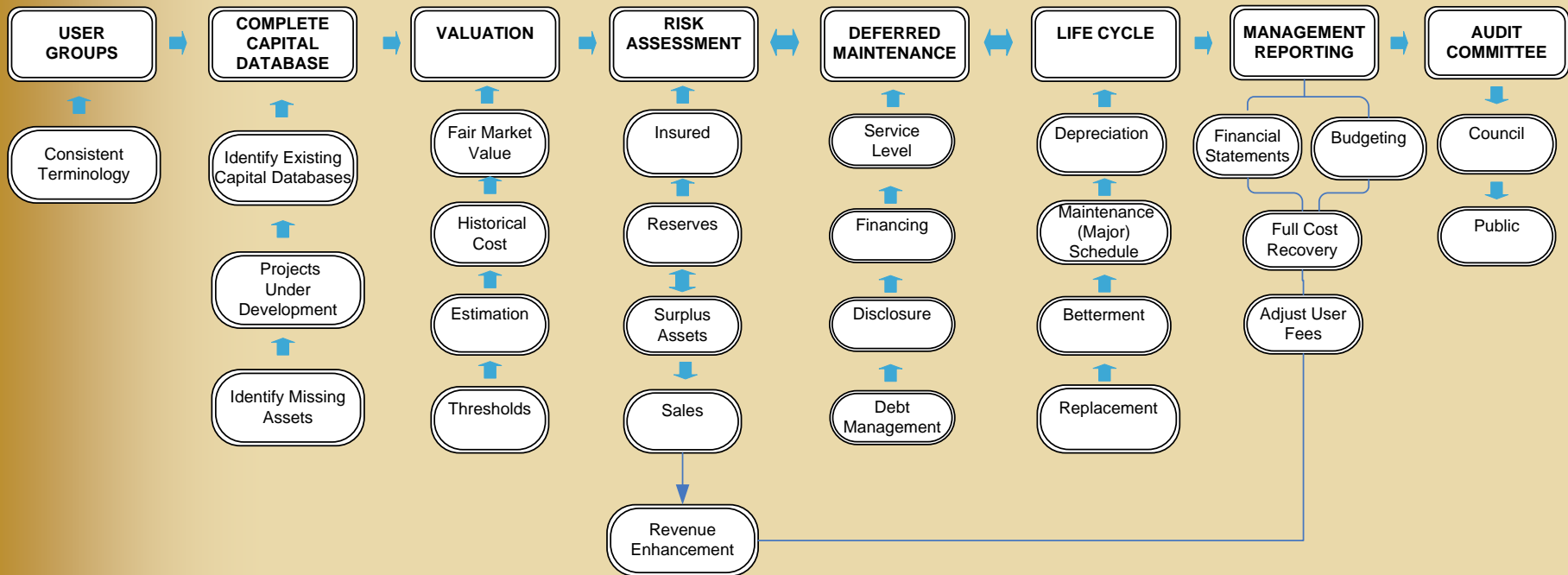
What is the level of service expectation? (*risk*)

How much will it cost to replace and when? (*life cycle*)

How do you pay for it? (*financing*)

Who needs to know? (*accountability and reporting*)

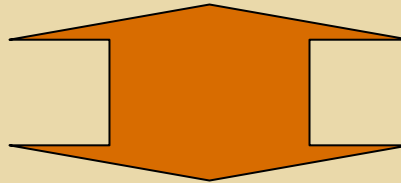
Asset Management Flow Chart





A Combined Perspective

ENGINEER



ACCOUNTANT



What is Required?

Capital Database (inventory)

- Consistent terminology
- Thresholds
- Betterment vs. maintenance
- Integration (GIS to financial system)
- Data collection (public works/facilities/finance/parks)
- Recording consistent with accounting policies



What's it Worth?

Valuation

- Historical cost
- Deflated reproduction/ replacement costs
- Fair value
- Capitalization of carrying costs
- Contributed assets
- Betterment vs. maintenance
- Maintain documentation for audit



What is its Condition?

Risk Assessment

- Materiality vs. risk of failure
- Adequate insurance
- Adequate reserves
- Surplus assets



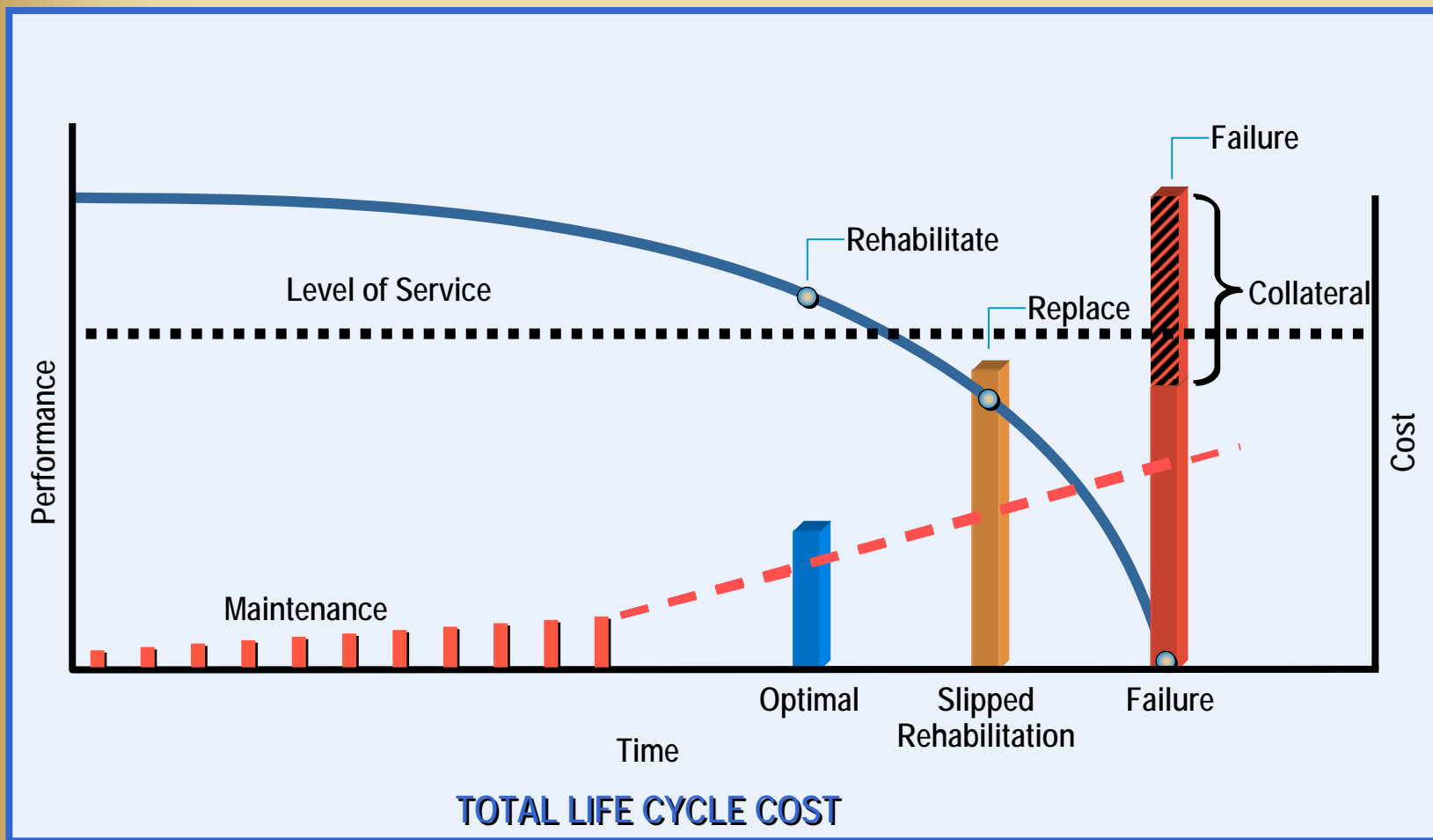
What is the Expected Service Life?

Life cycle costing

- Capital and operating costs
- Maintenance
- Major maintenance
- Expected life
- Replacement costs

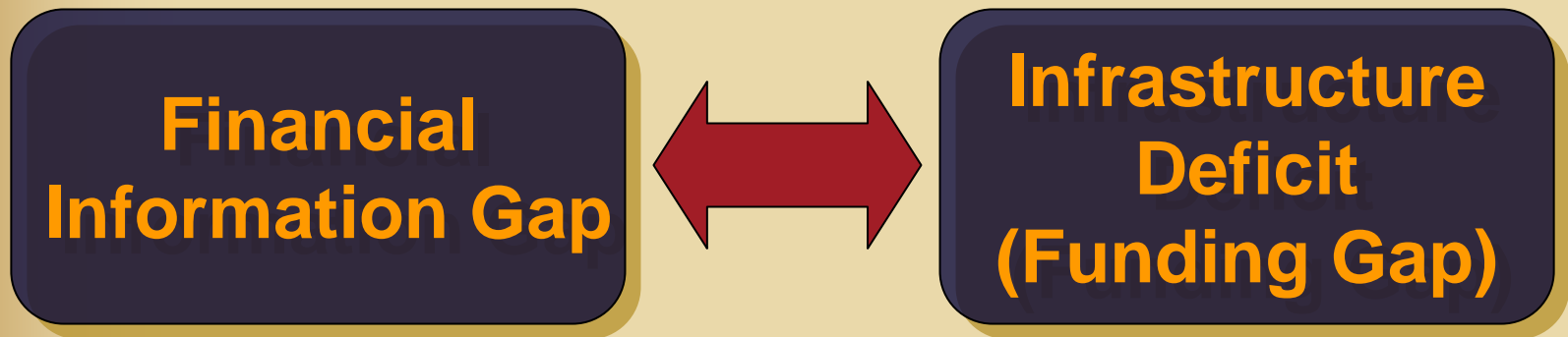


Life Cycle Asset Management





Closing the Financial Information Gap





Benefits of Full Cost Recovery Model

- Improved focus on the need to **consider the long-term** in planning the amount and timing of infrastructure expenditures
 - Reporting infrastructure as a depreciating asset focuses attention on its finite life, and the need to spend to maintain it
- Improves **internal accountability** and **financial monitoring**
- Provides a flexible **scenario analysis tool**
- Provides a useful “**selling tool**” for discussions with elected officials and other stakeholders
- Assists in proactively:
 - meeting the “true full cost” and “full cost recovery” reporting requirements under **SWSSA** (Bill 175), **Building Code** (Bill 124)
 - meeting the “**Building a Better Tomorrow**” objectives
 - preparing for the introduction of the **public sector accounting rules**



Who Needs to Know?

Financial reporting requirements

- Currently PSAB requires local governments to provide information about physical assets
- PSG -7 Tangible Capital Assets requires disclosure in notes to the financial statements about tangible capital assets by January 1, 2007 or earlier
- Tangible Capital Assets will be required to be reported on financial statements by January 1, 2009 (with comparables 2008) or earlier
- Budgetary impacts



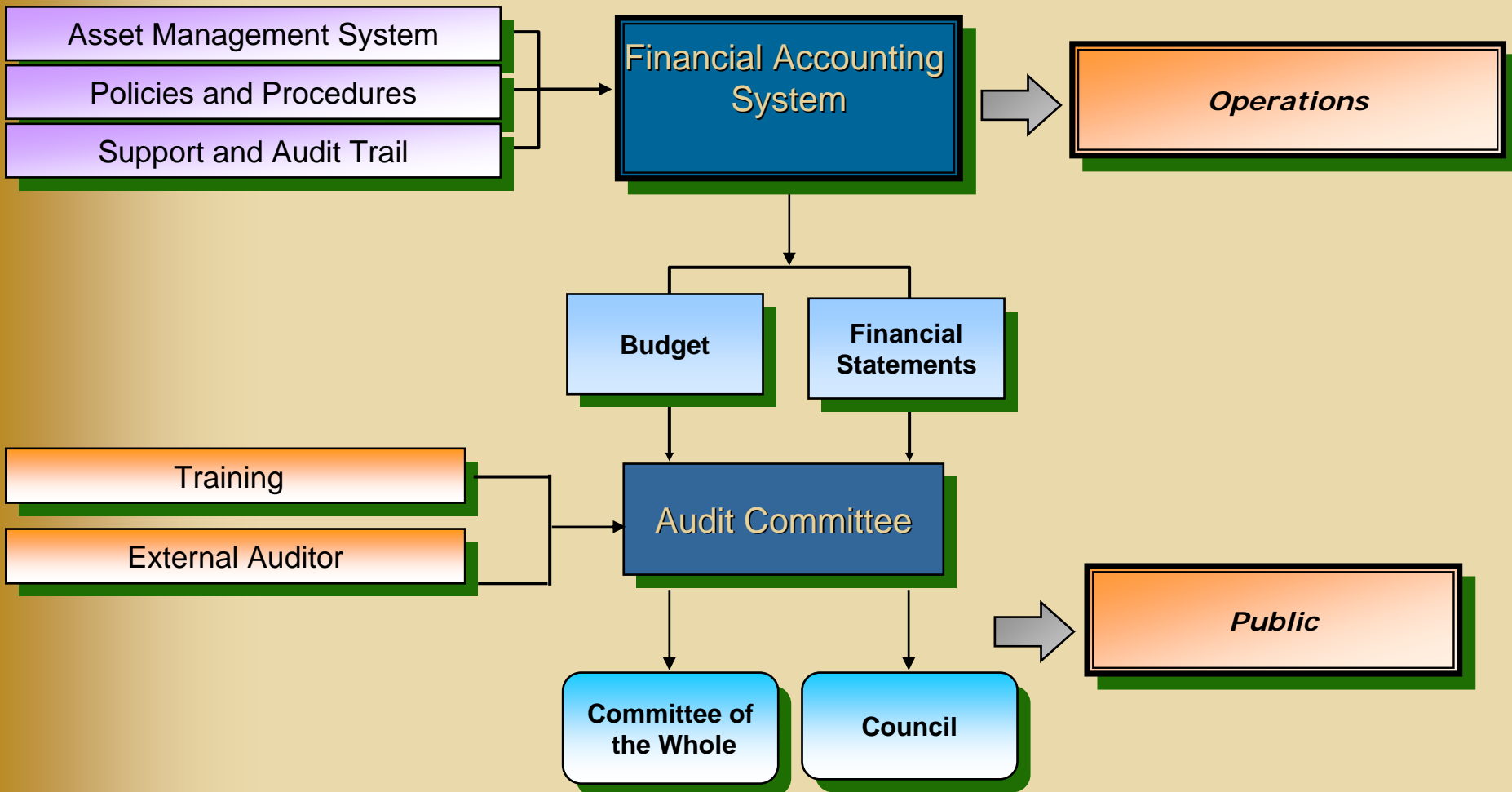
Who Needs to Know?

Accountability

- Audit Committee
- Council
- Public
- Training and Education



Reporting Approach





Summary

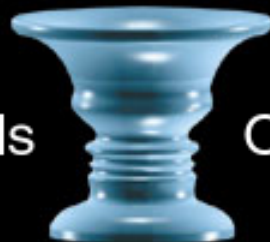
Start getting the tools in place now!

- Need to be ready starting January 1, 2007
- Better understanding of:
 - Infrastructure inventory, condition assessment and investment needs
 - True full cost of “infrastructure” operations on a life cycle basis
 - Current and planned revenue/funding sources
 - “Funding Gap” that may exist
- Basis for more informed strategic planning and decision making
- Useful “selling tool” for discussions with elected officials and other stakeholders

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