

# Incorporating Asset Management into Rates:

Have Communities' Approach to  
Rates Changed?

## *AMP Financial Management*

Answer: “I hope so or Asset Management Plans will fail.”

Two Observations:

[1] Asset Management Planning is an excellent and very successful public policy tool.

[2] Ongoing AMP may have a very high failure rate.

Lets look at the process...

- Asset inventory and assessment
- Development of long-term capital investment
- Financial forecasting

The elements of financial forecasting...

- Rates
- Operating expenses
- Capital investment
- Cash balance

What has been the experience to date?

**SUCCESS!!!**

*Unquestionably, AMP is an excellent public policy tool for communities in that they are able to see how they can financially manage the needs of the system.*

Specifically, why has it been so successful?

- Long-term rate management is far more effective than short-term adjustments.

Can we stop here on a high note?

## *AMP Financial Management*

**No!**

## *AMP Financial Management*

We say that an AMP is “a living document”, but what does that mean as a practical process over time?

First of all, it must be recognized that the critical focal point is the

### **ANNUAL BUDGET**

*This is the most likely point of AMP failure.*

*Without Annual Budget support, created by user rate adjustment, the capital investment will not occur.*

## *AMP Financial Management*

So why is the Annual Budget a problem ... just update the CIP and the cash flow forecast, right?

Ideally, yes.

Practically speaking, no.

The AMP takes a lot of effort and time to develop. There are meetings with policy makers to educate them such that they recognize the need and understand the financial responsibility.

- Will this take place every year?
- Will there be a policy maker turnover?
- Will it become part of the budget process?
- Will a rate adjustment be adopted to support the budget?



## *AMP Financial Management*

How can we avoid failure?

Institute a procedure to stand in the place of completely going through the AMP process...

[1] Update the cash flow forecast every year as part of the budget process. This should be done internally so that the cash flow forecast is an integral part of the budget.

[2] The CIP portion should be updated as needed.

[3] The rate track should be updated as needed.

What is the difference?

The AMP process is initiated by the engineer.

The *AMP update* process is initiated by the budget process.

# Questions?

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