**ASSET MANAGEMENT POLICY**

*This template provides the basics of an asset management policy. You should adjust this policy to fit your government’s needs. For further guidance, refer to the GFOA book “Financial Policies.” The book describes the elements in this template plus additional options.*

# **Why an Asset Management Policy Is Important**

Good infrastructure is vital for our community to thrive. This policy supports our infrastructure by:

* Promoting wise investment in new infrastructure.
* Protecting the historical investments [name of your community] has made in its infrastructure.

# **Capital Improvement Plan (CIP)**

Each year, [name of your community] staff will create a long-range capital improvement plan (CIP). The CIP will define and prioritize the capital projects that [name of your government] plans to take on in the next five years. [*Note to user of this template: Some governments may wish to have a longer time period for their CIP. Five years is a minimum.*]

* **Definition of a capital project.** A capital project in a CIP is a project with a three- to five-year life cycle and a cost of at least [*Insert the minimum value of asset to be included in the CIP. Pick an amount large enough that small projects do not crowd the CIP and divert attention from large projects*].
* **Link to needs assessments.** All projects in the CIP, with minor and few exceptions, should be based on needs assessments performed to determine the benefit of the asset compared to its cost.

# **CIP Project Identification**

Each year, [name of your community] staff will suggest potential projects for the CIP. At a minimum, this process will provide for the following:

* **Long-term operating and maintenance costs.** A plan will identify the cost to operate and maintain the asset over its life cycle.
* **Funding source.** A plan will describe where the funding is expected to come from to acquire, operate, and maintain the asset.
* **Project timing.** A plan will identify the proposed schedule for planning, bidding, construction, and other milestones in acquiring the asset.

# **CIP Project Selection**

[Name of your community] will create a process to assess capital projects. The selection process should include:

* **Long-term forecasts.** Long-term forecasts should be prepared to make clear the resources available for capital spending and to assess the impacts of operation and replacement costs.
* **Project impact.** A project should not be considered on its own. The impact a project has on other projects should be recognized and costs shared between them where appropriate.
* **Funding of preliminary activities.** For some projects, it may be wise to fund only preliminary engineering/planning before promising to fund the whole project. These expenses can be large, so they should be assessed and prioritized.
* **Operating and maintenance costs.** Resources should be identified to operate and maintain an asset before assigning resources to build it.
* **Life cycle costing.** The cost study of a proposed project should include the life of the asset—from planning and acquisition to disposal.
* **Project timing and scope.** Schedule and scope estimates should be achievable within the requested financial and human resources.

# **Balanced CIP**

The CIP is a balanced, long-term plan. For the entire period of the CIP, revenues will be equal to the projected costs. It is possible that the plan will have more costs than revenues in any single year of the plan (with the exception of the first year, which is intended to become an appropriation plan for [name of your community]). However, over the life of the five-year plan, all expenses will be covered with revenues. Staff may record, on a separate document, projects that are deemed important but cannot fit into a balanced CIP. [Name of your governing board] may choose to look at unfunded projects and defund an existing project in favor of another.

# **CIP Funding Strategy**

[Name of your community] may elect to use debt financing to acquire an asset or pay-as-you-go financing (i.e., cash financing). Below are guidelines to help [name of your community] make the best choice between debt and pay-as-you-go financing.

Factors that favor pay-as-you-go financing include situations where:

* The project can be funded from current revenues and fund balances (reserves);
* The project can be finished within an acceptable time frame given the available revenues;
* Additional debt levels could have a harmful effect on [name of your community]’s credit rating or repayment sources; or,
* Market conditions are unstable or suggest difficulties in marketing a debt.

Factors that favor long-term debt financing include situations where:

* Revenues that will be used to pay back debt are believed to be sufficient and reliable. This makes it more likely that long-term financing can be marketed with a suitable credit rating;
* Market conditions present favorable interest rates and demand for government debt financing;
* A project is immediately required to meet or relieve capacity needs and existing cash reserves are insufficient to pay project costs; or,
* The useful life of the asset is five years or longer.

# **Capital Budget**

Each year, [name of your community] will develop a capital budget that will be the spending plan for capital. The first year of the capital improvement plan will be an important input into the capital budget for the fiscal year.

# **Asset Inventory**

[Name of your community] will develop a full asset inventory that projects equipment replacement and maintenance needs for a multiyear period and will update this projection each year. The asset inventory will describe the current condition of [name of your government]’s assets. It will compare this condition to a standard for asset condition. It will account for the full cost to maintain assets up to standard condition over their life cycle and account for risks associated with assets that are below standard condition. Departments will inventory and assess the assets for which they are responsible and ensure that their records are consistent with the Department of Finance’s capital asset records.

# **Priority of Asset Maintenance and Replacement**

It is the policy of [name of your government] to maintain its assets at a level that protects capital investment and reduces future maintenance and replacement costs. Each year, [name of your government] staff will develop and recommend to [name of governing board] a prioritized asset maintenance spending plan.

# **Funding of Asset Maintenance**

It is [name of your government]’s policy to assign enough resources to preserve [name of your government]’s existing assets to the best of its ability before assigning resources to build or acquire new assets that also have operating and maintenance needs. This policy protects our historical investment in capital assets. It also helps us build or acquire new assets that we can’t afford to maintain.