

U.S. ENVIRONMENTAL PROTECTION AGENCY ENVIRONMENTAL FINANCIAL ADVISORY BOARD

JUL 18 2003

Honorable Marianne L. Horinko
Acting Administrator
U.S. Environmental Protection Agency
Washington, D.C. 20460

Dear Acting Administrator Horinko:

In June 1999, the Governmental Accounting Standards Board (GASB) established new financial reporting standards that have fundamentally changed the way State and local governments report their financial results. Among other provisions, GASB "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," requires that major infrastructure assets acquired or having major additions or improvements in fiscal years beginning after June 15, 1980, be capitalized in financial statements. In addition, the cost of using the assets must be reflected.

EPA has the opportunity to promote aspects of GASB 34 requirements that would lead to improved financial reporting by environmental utilities to regulatory agencies. In addition, compliance with GASB 34 will encourage utilities to better maintain environmental infrastructure; provide increased assurance to citizens that environmental needs are more effectively being addressed; provide for better benchmarking of environmental infrastructure operating and capital costs among agencies; and provide improved asset and cost information for EPA and regulatory agencies to award financial assistance to requesting agencies.

To understand the implications of GASB 34 and EPA's role related to GASB 34, the Environmental Financial Advisory Board (EFAB) sponsored a workshop in Washington, DC early last year. The workshop was facilitated by EFAB member Mr. George Raftelis and included opening remarks Mr. Michael Deane, Chair of the Cost-Effective Environmental Management Workgroup of EFAB and myself. Panelists included Mr. Tom Allen, Chairman of the Government Accounting Standards Board, and representatives of utility management, EPA and state regulatory agencies, financial and lending institutions, bond rating agencies, Environmental Finance Centers, the Government Finance Officers Association, and public accounting representatives. Results from the workshop were summarized and documented (attached), and have provided a basis for recommendations in this Summary.

The major provision of GASB 34 that provides EPA with an opportunity to promote the benefits of regulated agencies deals with the method of accounting for and reporting infrastructure. Specifically, GASB 34 allows governments to account for infrastructure using one of the following methods:

- Depreciation Approach
- Modified Approach

The modified approach is attractive in that it allows governments, in lieu of depreciating their assets, to adopt a systematic approach to managing those assets that, at a minimum, meets the following four requirements:

- Having a current inventory of eligible assets
- Documenting the condition of those assets via a reproducible assessment procedure
- Demonstrating that assets are being preserved at level predetermined by the government
- Estimating the actual cost to maintain and preserve the assets

The modified approach requires governments to develop asset management systems, and assure that proper investment is made to maintain environmental infrastructure in an appropriate condition. Regulatory agencies benefit through improved reporting of infrastructure information and assurance that federal and state dollars used for infrastructure are being optimized by agencies receiving financial assistance. Utility customers benefit by being assured that user fees are effectively maintaining their systems.

Associations in the environmental industry tend to favor the modified approach in that this approach provides a tool to government utilities to better plan for and maintain its infrastructure. Specifically, asset condition is carefully monitored and the cost of maintaining infrastructure at appropriate levels is identified. Already the American Public Works Association has endorsed the modified method as the preferred approach to infrastructure reporting for its member agencies.

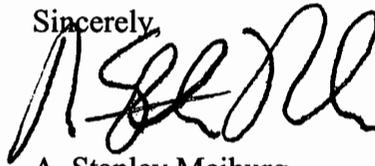
EPA stands to benefit if agencies it regulates adopt the modified approach, and implement an asset management system. EFAB encourages EPA to take an active role in promoting GASB 34 and developing asset management systems. Initiatives that EPA might consider include:

- Providing incentives to reward those environmental utilities that have developed effective asset management systems compliant with GASB 34. Incentives might include:
 - economic payments for implementation of asset management compliant with GASB 34
 - recognition by state and/or federal environmental agencies
 - easier accessibility or more favorable terms to SRF funding for environmental infrastructure

- Providing full or partial grant funding for the development of asset management systems, particularly for small, disadvantaged communities
- Partnering with environmental associations in developing asset management guidance materials
- Expanding Capacity, Maintenance, Operations and Management (CMOM) as a vehicle to promote asset management
- Serving as a clearinghouse for the compilation and dissemination of asset management materials
- Preparing case studies of environmental utilities that have successfully implemented asset management systems.

We hope that you will find the recommendations constructive and useful. The Board is prepared to take any follow-up actions that are consistent with its charter. The members of EFAB appreciate the continuing opportunity to advise and assist EPA on important priorities. If you would like to discuss our findings and recommendations in more detail, we would be happy to meet with you and/or other members of Agency management you deem appropriate.

Sincerely,



A. Stanley Meiburg
Executive Director

Enclosure

cc: Stephen L. Johnson, Acting Deputy Administrator
Tracy Mehan, Assistant Administrator for Water
Linda M. Combs, Chief Financial Officer
Joseph L. Dillon, Comptroller
Steve Allbee, Project Director
Office of Water
Juliette McNeil, Director
Financial Management Division, OCFO

WORKSHOP ON GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 34

**MARCH 4, 2002
National Press Club
Washington, DC**

Introduction

The Environmental Financial Advisory Board's Cost Effective Environmental Management Workgroup held a public workshop on March 4, 2002 to discuss the Governmental Accounting Standards Board (GASB) Statement No. 34. This workshop is the fourth in a series of workshops to highlight a variety of techniques and strategies, in both the public and private sectors that can lead to greater efficiencies and lower costs in providing public-purpose environmental and public health protection. George Raftelis, EFAB member, facilitated the workshop and along with Michael Deane and Stan Meiburg provided an overview of GASB 34 and the Workgroup's and EFAB's interest in GASB 34.

In June 1999, the GASB established new requirements for the annual financial reports of state and local governments. The Statement 34 was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions (or who may do so in the future). Among other provisions, Statement 34 requires Basic Financial Statements; Management Discussion and Analysis; and Required Supplementary Information.

The following summary reflects the views and perspectives of the workshop panel members in their various roles and responsibilities (regulators, local utilities, financial services industry).

GASB Overview

Mr. Tom Allen, Governmental Accounting Standards Board

The Governmental Accounting Standards Board (GASB) is a private, nonprofit body that is responsible for establishing and improving accounting and financial reporting standards for governmental units in the United States (not including the federal government). These units include general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities.

GASB Statement 34 establishes new requirements for the annual financial reports and was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. These decision-makers include legislators, members of oversight bodies, investors, creditors and others who provide resources to governments and citizen groups and the general public.

GASB has received very positive reactions from over 100 governments that have implemented early. Of these, fifteen to twenty-five percent have chosen the alternative method. There has also been much interest from engineering groups and associations.

Local Utility User Panel

Mr. Buddy Morgan, Montgomery Water Works and Sanitary Sewer Board

- Believe GASB 34 is long overdue; that governments should account for everything
- Already looking at life-cycle accounting
- Has a copy of GASB 34 and can comply but it will cost
- Doing a condition assessment of all infrastructure (CMOM arising out of ISSO rule)
- Will take a while to implement; most cities don't have detailed maps of their pipes, streets, etc.
- Have a GIS system; every manhole, fire hydrant, valve
- Looking at line segments
- Chose the modified approach; requires you to look at everything
- GASB 34 gives us what the cost is and forces government to report to the public
- Need an infusion of money to get government's back and GASB-34 will not allow systems to slip back
- Advice to government - - don't panic; involve everyone (engineers, accountants, computer techs, etc.)
- GASB-34 is a lot of work

Mr. Dan Leahy, City of Peoria, Arizona

- Did not become involved until after it was implemented
- Decided to early implement
- Made early decision to seek an outside consultant to help implement (took eleven months to implement)
- 1st statement: July 2001
- Peoria had historically capitalized infrastructure ; found that infrastructure was undercapitalized – W&S enterprise fund
- Recommend beginning process at least a year before issuing financial statement
- Look at accounting systems/structure before reporting year begins
- 3 main benefits: 1. GASB-34 is now the generally accepted accounting system; it demonstrates responsibility to bond ratings. 2. The addition of management discussion and analysis provides useful information. 3. Overall financial information useful to the government
- Peoria uses the depreciated approach on all systems
- Do not have GIS, but are implementing now (public works people fully supported the modified approach)
- Believe GASB-34 process was fair and included everyone

- Infrastructure one of government's largest assets and needs more attention
- Still trying to capture land value
- City council reaction – glad the accounting professionals could deal with this – just had to make them understand this (net assets do not translate into spending dollars)
- First tier 1 city to implement - - other cities are very interested
- Advice: start early, work closely with auditors (still took twice as long), not likely to be easy but is a good learning process

Mr. Ed Wagner, CH2M Hill

- Recognizes Steve Allbee's work on renewal and replacement
- Competitiveness – good asset management program will help public systems in this area
- Utility managers heard about it from their financial people
- Know the frustration involved in communicating with decision makers to get funding for renewal and replacement
- By asset management mean infrastructure for water and wastewater
- What do we mean by asset management? Good program minimizes the total cost of owning and operating assets while giving adequate service at acceptable levels of risk
- Idea of a life cycle view must be recognized (used)
- Must benchmark the system to get started and support good decisions
- Need to look at asset management as a core business process
- Anecdotal information is not good for an asset management program
- Information needs are greater
- Timeframe is long-term (up to 50 years)
- Integrate this view into organization's planning structure
- Commitments at the highest levels and a structure that allow this to be a core business structure
- Supports the modified approach because it is more closely tied to asset management
- Public implications if you can't meet your commitment to preserve assets you will have to shift to depreciation
- Stovepipe approach could lead to an evolutionary approach
- Suggest strategic approach includes more upfront work
- GASB-34 has highlighted the need to do utility asset management modified approach
- Realities: 1. aging infrastructure; 2. customer service demands
- Long-term commitment required

Regulatory Panel

Mr. Steve Allbee, Environmental Protection Agency

- Fair disclosure – does not bring a regulatory focus. EPA has sponsored financial management handbook for AMSA and other workshop series
- Bottom line future: 1. fiscal partnerships 2. Asset management (include GASB-34) 3. innovation
- How did we get where we are now? Put in a lot of pipe; changed performance standards; major growth over the past thirty years
- ½ capital outlays will have to go to replace those/that system(s) maintaining, replacing restoring
- GASB-34 – management problem not an accounting problem – have to figure out how to manage your assets over time at the lowest possible cost
- Gut instinct – biased toward modified approach but does not expect it to be chosen much (accountants will choose depreciation as the path of least resistance)
- Water and sewer assets are generally of well managed as depreciated accounts (too long service life)
- Face the issue; make management choose
- Modified approach are more effective way to disclose
- Underlying problem: poor understanding of what it takes to provide these services/functions
- 30 years without adequate disclosure of true costs
- Weaknesses of GASB-34: 1. easy to finesse the rule if you want to (via depreciation – choice of modified approach is a management one); 2. Idea of only going back twenty years is not adequate (for water and sewer must go back further); 3. Do not think GASB-34 is rigorous enough in the small systems; 4. In cities there may not be a full airing of the decision (picking and choosing is not well understood); 5. Huge lack of understanding re: choice(s) (finance and engineer people don't talk); 6. do need to come to terms with consistencies in classification systems re: grading standards; 7. sees as a stronger tool if we dealt with replacement values not depreciation values
- For water and sewer, replacement would give a more real figure(s)
- Things feds could do: push the industry to these types of tools; if communities used the modified approach and some disclosure related to replacements, does not think the feds would need much more; someone has to say that something is wanted/makes a difference; tie strict GASB-34 requirement to funding; finally, it seems there is the potential to improve the regulatory process if you have better information
- Accounting mechanisms we have now are not predictive tools – need to go over and beyond modified approach to get f??
- GASB-34 takes use a huge step but thinks another further one is needed
- People can choose depreciation and move to the modified approach
- Engineer and finance people need to work together more

Mr. Kevin O'Brien, Great Lakes Environmental Finance Center

- Mayors of Cleveland did not manage infrastructure assets
- In 1970's Cleveland lost infrastructure (transit and water treatment)
- Did not invest in capital replacement(s) in systems
- 1978 city defaulted on \$3 million in bonds
- New mayor, S&P/Moodys told the city they had to do capital improvement plans, financial plans, reate structures if they ever wanted to issue a bond again
- Infrastructure number one key to economic/private growth
- Build up greater Cleveland – Cleveland state reporting system (brought in \$7 billion)
- Brought in systems of management infrastructure and accountability public private partnerships
- Had GASB-34 been in place, the problem might have been avoided
- Rating agencies would have had more information
- Terrible for government to be subjected to the dictates of this non-electoral group
- GASB-34 requires a wide range of multi-disciplinary knowledge
- Does GASB-34 apply to every government in Ohio? (State auditors stated townships out) How many modified? All public works directors. How many talks? None. In many cities raising rates is a political decision
- Benefited from a state auditor who has set out a timeline and basic expectations in gap accounting
- Problems in Ohio: Who own roads? Auditors haven't ruled on this (everyone says that towns and cities own everything). Ohio Public Work Commission Board decides no one would get grants without a five year capital plan. It increased level of public finance quality
- EFC Network banded together on a project called CAP Finance created at Boise State
- Software model allows small local governments to develop capital planning system that is GASB-34 compliant
- State regulatory people hard to involve. Don't know if they are interested
- Second tier project for small organizations - - translate that into a useful tool for small governments
- WERF meeting – #1 topic: asset management
- There is a whole lot going on everywhere but we need different groups to talk to each other

Financial Services Industry Panel

Mr. James Williams, Ernst & Young

- Clearly GASB-34 is the greatest change in government finance reporting – mainly with general purpose governments
- With utilities, the changes are much more modest
- New financial reporting is a statement of net assets and cash flow

- Enterprise fund requirements: management discussion and analysis; net asset format; direct method for cash flows; disclosures: defining what is operating or non-operating assets
- GASB-34 – keyed in on alternatives to do the retroactive reporting – all options are valid and acceptable to auditors but auditors will want documentation for any option; retroactive is the stickler
- General purpose governments – streets and highways are a big issue
- Surprising number of early implementers did the retroactive simultaneously implementing GASB-34
- Major decision must be made: 1. geographical approach; 2. like systems
- New Orleans, Miami Date, Atlanta – infrastructure need about \$3 billion each
- Incentive structure must occur at the state level
- In Ohio, depreciation is the way because it was given to the finance guy and the interest was compliance
- GAAP?
- Anything new, different and non-routine, the auditor will spend more time on
- Recommend GASB website

Mr. Jim Wiemken, Standard and Poor's

- GASB 34 standardizes things
- GASB-34 has the potential to make review clearer and more efficient
- Don't expect to see immediate massive rating changes anytime soon
- Rating is a credit opinion of an issuer's willingness and ability to repay debt
- GASB-34 will not impact too much n systems that already have good asset management practice
- When viewed from the water and sewer industry as a whole, they are pretty stable and generally have good debt repayment histories
- Debt service coverages not being called allows for reduction in this from S&P, Moodys, Fitch
- GASB-34 rating agencies care about timely implementation
- GASB-34 raises the bar for what constitutes good management – tie to municipal credit analysis? Even though 60+ revenue debt are separate, frequently the local management is the same – taking a more whole government approach
- Budget pressures concept – credit analysts watch this closely
- Infrastructure and capital assets in gov't credit analysis 1. Current condition; 2. future needs; 3 future plans – ideally have a CIP
- Rated a lot of local governments/utilities - - a lot do not have an asset management plan
- They get points for strong management and the ability to clearly identify needs going forward. There are six AAA rated utilities. Management discussion and analysis – 3 sets of audits and information on the utility. What are the trends, issues and problems going forward?
- S&P surveillance process has less information available to it
- From the investor perspective, GASB-34 is great information

- Effects on smaller issuers? Should be interesting to see how this plays out. Small issuers may be moved to the SRF. What is the SRFs reaction to GASB-34?
- SRF loan requires recipients must follow EAPP and general auditing standards

Mr. John Petersen, School of Public Policy, George Mason University

- Skeptical about GASB-34 – governmental accounts area of concern re: valuation of fixed assets and how they came on the balance sheet
- Been in mind that public perception is cynical about politicians and governments
- Revenues bonds less worrisome; 6.0 bonds more of a political problem
- 3rd politics not always easy or a straight flow – How will GASB-34 apply to East St. Louis?
- Occasionally there will be real problem areas; there are places where the situation doesn't work
- GASB-34 hard numbers will be showing some government accounting systems going down the toilet
- Why shouldn't we show the disasters? Real political time bomb
- Government wide reporting model – real users are the rating agencies
- Raters increasingly focused on willingness and management factors (ability to pay not as important as in the past)
- Not going to improve water and sewer bond ratings
- Depreciation can be looked at in a variety of ways – accounting system, pay taxes, issue securities, capital return
- Engineers concern is maintenance
- Economists are concerned with allocating intert equities
- Not as concerned as GASB-34 impact on enterprise funds concerned about impact of general governments; not likely to have a big ratings impact
- Defining depreciation conflict between engineer/economist/finance
- Worry about misperception of value by the politicos
- Impact of GASB-34 on rates, tax bases?
- As the community sees its valuation go up, what can it sell to realize the value of its assets?
- Will GASB-34 hurt development?
- Ability of political establishment to cause disadvantage
- Making bad out of the good – worries about the public making the good out of the bad

Roundtable Discussion and Recommendations

- Enterprise funds not that impacted, more general governments
- Define what is and is not infrastructure
- Value of retroactive reporting
- Depreciation approach = just getting by
- Committed governments – modified approach
- GASB-34 does some standardization
- Don't look to see a lot of rating changing

- Should EPA take an active role in asset management? Yes, even without GASB-34
- Do it through partnership with utilities not through regulations (reg structure would demand uniformity)
- Will EPA give some recognition/credit? What kind? Should EPA recommend either the depreciation or the modified approach. Point out advantages/disadvantages of each
- Financial reporting – depreciation approach
- Asset management – modified system can be compatible
- EMS models heavily voluntary, general framework more comfortable with the help approach back up by the regulatory hammer
- Relationship between GASB-34 and asset management. EPA support communication of both and between both CMOM (Capacity, Maintenance, Operations and Management)
- NPDES Permit - - CMOM program gives you an affirmative approach
- Outreach to state partners – AWWA & WERF state partnership approach
- EFAB should encourage asset management/GASB-34 but not mandate
- Partner with various industry groups and work through them
- Smaller communities – TMDLs will drive them
- Check DOT model
- EPA should take an active role in promoting asset management. CMOM will make them do it; look to CMOM and other program models for flexibility
- Looking from the management standpoint, EPA should endorse the “modified” approach
- The relationship between GASB 34 and asset management should be linked (asset management supporting financial reporting and vice versa)



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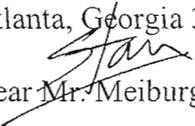
U.S. EPA REGION 4
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AUG 27 2003

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OFFICE OF
WATER

Mr. A. Stanley Meiburg
Executive Director
Environmental Financial Advisory Board
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8960


Dear Mr. Meiburg:

Thank you for your July 18, 2003, letter to Acting Administrator Marianne Horinko transmitting the Environmental Financial Advisory Board's (EFAB) recently completed report (EPA-EFAB-CEEM-03-01) on the importance of the Governmental Accounting Standards Board Statement Number 34 (GASB 34). We appreciate the leadership of the EFAB in hosting a workshop on GASB 34. The workshop was instrumental in improving understanding among the Environmental Protection Agency (EPA) staff, and in facilitating a dialogue with stakeholder organizations about the impacts of implementing the new standard.

We agree that GASB 34 provides new and improved financial reporting standards for State and local governments that will be an extremely important step toward better management of our environmental infrastructure. The modified approach offers some distinct advantages in the context of environmental infrastructure. The greatest benefit is that it provides a much-improved tool for utilities to better plan for and maintain infrastructure.

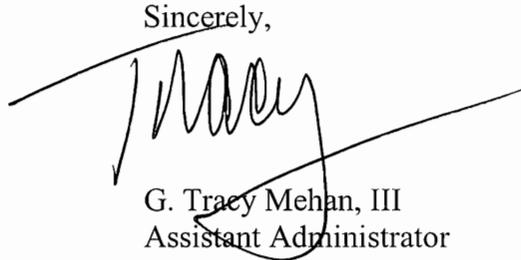
The Office of Water has taken steps in the past couple of years to highlight the challenges brought about by aging infrastructure. I know that the members of EFAB are aware of our report entitled *The Clean Water and Drinking Water Infrastructure Gap Analysis* that was issued in September 2002. One of the major reasons we prepared the report was a growing sense that our environmental infrastructure systems were aging, and that the public health, environmental and economic implications are a matter of serious concern. GASB 34 has the potential to be an important tool in developing solutions.

We generally agree with the broad aims of the EFAB recommendations and have undertaken several projects in general accord with the intent of the recommendations. Our efforts to date have been focused on the development of tools and techniques of asset management. Our strategic approach is based on the premise that the industry and the States strongly advocate an industry driven framework and significantly oppose command and control or regulatory initiatives concerning asset management. We are making good progress but much remains to be done.

I am enclosing a brief overview of the most significant aspects of the work we have underway. Of course, there are resource implications associated with several of the EFAB recommendations, and we may find it necessary to consider the resource requirements in framing our activities in support of this important initiative.

Thank you for sharing your report with the Office of Water. If you would like to discuss further how we might be able to work together on GASB 34 or asset management, please feel free to contact Sheila Frace at (202) 564-1153.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Tracy Mehan, III", is written over a horizontal line. The signature is stylized and cursive.

G. Tracy Mehan, III
Assistant Administrator

Enclosure

The Office of Water's Overview of Asset Management

For water utilities, few concerns can be larger than managing infrastructure assets to minimize the total cost of ownership and operations while meeting established service levels. Much of our activity in this area over the past couple of years has been about bringing best practices in asset management to the forefront. The process that guides the acquisition, use and disposal of assets with a focus on managing assets to minimize the cost of owning and operating them, while continuously delivering the desired or required level of service is commonly referred to as asset management.

Over time all assets deteriorate. Many water assets are underground and not easily observable. Just because an asset is old, does not guarantee that the asset is failing to meet its performance purpose, but the aging of the assets should bring about a shift in approach to the management of the asset. The primary challenge is to improve the capacity of the organization to understand the nature of how assets fail and by gaining a better understanding of the failure modes improving the ability of the organization to prevent failure when the consequences of failure are unacceptable. The key steps in the asset management process include; an information system, asset identification, condition and criticality assessment and the resulting prioritization and decision making process.

Although our focus has been on tools and techniques and best practice in asset management, these efforts will work very much in tandem with implementation of GASB 34 by utilities. We have been trying to move the wastewater industry toward broadly adopting asset management as a foundation approach to life cycle facility and cost management of water and wastewater infrastructure. We have also found that Asset Management is fundamentally compatible with the principles and concepts found in Environmental Management Systems (EMS). What follows is a brief description of the projects that we have initiated and considered over the last couple of years.

- ◆ We initiated and sponsored a project with Association of Metropolitan Sewerage Agencies (AMSA) and the other key municipal and professional associations to prepare a first generation Asset Management Handbook. The handbook was finalized in February 2002 and four (two-day) workshops were held for utilities between March and June 2002. You can obtain a copy of the handbook by contacting AMSA at <http://www.amsa-cleanwater.org/>. This handbook is a very helpful reference for communities that are trying to get a better understanding of what assets they have and a point of reference on how to initiate an asset management process.

- ◆ We sponsored a project with The Water Environment Research Foundation (WETF) to conduct a research oriented needs assessment on Asset Management. This workshop included by invitation a relatively select group of researchers and practitioners who had significant experience and expertise in the field of Asset Management. Attendees included experts from the U.S. and several other countries. The product from the workshop is a well-informed list of projects for improving the tools and support activities associated with implementing Asset Management.
- ◆ We have utilized contractor support to prepare materials and present “hands on” workshops for utilities on advanced asset management. The initial set of workshops was held in November 2002. The workshops are built around case studies and participant exercises that demonstrate the concepts, techniques and tools. Three workshops were held in the fall of 2002 and we have scheduled five more workshops for utilities this fall, at various locations. See more information at the EPA Website: <http://www.epa.gov/owm/pdfs/workshop-announcements.pdf>.
- ◆ We have issued an Asset Management fact sheet focused on collection system management. If you are interested in looking at a brief example of the application of Asset Management at a more detailed level look at the SSO Fact Sheet Asset Management for Sewer Collection Systems on the EPA Office of Water Website www.epa.gov/ow/owm. The fact sheet contains a discussion of the relationship between Asset Management, CMOM, GASB34 & EMS. We also have underway a project with the Water Environment Federation to examine the linkages between these initiatives and the evolution of a more holistic model for sustainable utilities. A report on improving the integration of these initiatives is expected out this fall.
- ◆ We have underway a Cooperative Agreement is with the Maryland Center for Environmental Training to prepare for smaller communities a product (handbook, tools, etc.) similar to the AMSA prepared handbook, but appropriate for small utilities.
- ◆ Most of the projects that were identified in the March WERF workshop were in the area of tools and techniques. We included Asset Management is a priority area in the 104(b)(3) guidance. As a result the WERF received funding to proceed with a work on condition assessment protocols which was the highest rated need coming out of the March research needs assessment.
- ◆ We are providing technical assistance on a series of Asset Management startup projects in places like the Orange County Sanitation District in California and the Seattle Public Utilities Commission in Washington State and the Regional District in Sacramento, California. As these projects become further developed we expect to work with the particular districts to make case studies and supporting information available on the experiences of these organizations. An example of a Strategic Asset Management Plan is available at the Orange County Sanitation District Website <http://www.ocsd.com/civica/filebank/blobdload.asp?BlobID=2557>.

We see several additional needs that are valuable and we expect to initiate additional work, as funding becomes available. Some of the ideas that have been advanced include:

- ◆ Preparing a model of information source and management plan for how to obtain the initial critical information in doing a regional gap analysis or undertaking a Nessie Curve assessment as part of the initial stages of an asset management process.
- ◆ Preparing materials that would be oriented toward local elected officials and presenting these material as part of a workshop format at national association meetings for organizations such as the League of Cities, National Association of Counties, Mayors Associations and similar elected official forums. The idea is to create a much simplified overview of Asset Management that would be appropriate for elected officials and assure that these elected officials get exposed to these approaches when they attend their national meetings.

In addition, there are case studies and work activities that are underway in the water sector that are being undertaken by a number of local governments and associations that should offer a fairly extensive set of case studies and models as the projects become more advanced. For the most part these projects do not have direct EPA involvement, but we are collaborating with the originating organizations to gather information on lessons learned.

- ◆ A few communities have undertaken exchange programs with other utilities to foster transfer technology on asset management. These utilities believe that there is potential to “jump-start” new asset management programs and raise performance by learning from the experience of other utilities or even other industries. The Seattle PUC has had a major effort underway and early reports are that time and money can be saved by drawing on the experience of peers from outside as well as inside the US. The transfer of lessons beyond the participating utilities has been limited, but we are working with the utilities to develop approaches to sharing the lessons learned.
- ◆ There has been some exploration in the industry about alternate models to meet technical assistance research and tools development needs associated with implementing asset management over the long term. One of the prominent ideas is further develop thinking on how to establish a Center of Excellence model.
- ◆ We know that there is a continuing need to engage our state counterparts in the Asset Management discussion. To date, the resource issues within most States have prevented them from becoming more actively engaged.

- ◆ There may be significant benefit in integrate asset management broadly into EPA's every day activities and possibly areas where our work could change if we use Asset Management as a basic driver in our own programs. The asset management principles could have significant implications not only for areas like SSO's and collection system management, but also effect the approaches to regulatory and compliance activities as the life cycle cost and benefits approaches become more advanced.

Finally, it is our view that an asset management program does not have to be complex to be effective. Properly targeted, a basic program can be developed around existing systems, with new systems being added as the program progresses. For organizations with relatively small systems, complex asset management systems may not be needed to meet organizational objectives. More advanced asset management systems are justified for systems that have high value, such that asset management decisions will have a large financial impact, or complex systems in terms of the size, design, or location.

GASB 34 has a pretty extensive period of time for implementation

Communities with greater than \$100 million or more total annual revenue were required to begin GASB 34 reporting in their first financial statement following June 15, 2001. Communities with total annual revenues between \$10 million and \$100 million are required to meet the new standards in financial statements issued after June 15, 2002. Governments with less than \$10 million annual revenues should begin GASB 34 reporting after June 15, 2003.

Once a community has made the transition to GASB 34 reporting, any system components that are acquired, rehabilitated, or significantly improved should be recorded as new assets on the financial statement for the same fiscal year. Capital reporting of existing assets is also encouraged at the date of transition, but a four-year grace period is provided. Governments with revenues in excess of \$10 million are required to go back in time and record asset investments over the past twenty-five (25) years. Governments with less than \$10 million in annual revenues are not required to go back in time and record capitalized assets acquired before the date of transition to the new financial reports.

Although its not required to demonstrate compliance with GASB 34, water and wastewater utilities may choose to adopt approaches to establishing inventories that go back much further than the periods outlined in GASB 34. We are in a light handed technical assistance manner encouraging them to make this choice. For many utilities the oldest portion of the system is where data and information are most meaningful for short term and near term asset management decisions. Even though the new infrastructure capitalization requirements won't take effect until 2005 or 2006, asset management practices should be implemented now so that necessary data will be available when the reporting requirements take effect.