



## BEST PRACTICES

## Capital Asset Management

Local, state and provincial governments should establish a system for assessing their capital assets and then appropriately plan and budget for any capital maintenance and replacement needs.

The term *capital assets* is used to describe assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets include major government facilities, infrastructure, equipment and networks that enable the delivery of public sector services. The performance and continued use of these capital assets is essential to the health, safety, economic development and quality of life of those receiving services.

Budgetary pressures often impede capital program expenditures or investments for maintenance and replacement especially for governments that don't prepare a multi-year capital plan or properly consider the impact of capital projects on the operating budget. This lack of investment makes it increasingly difficult to sustain the asset in a condition necessary to provide expected service levels. Ultimately, deferring essential maintenance or asset replacement could reduce the organization's ability to provide services and could threaten public health, safety and overall quality of life. In addition, as the physical condition of the asset declines, deferring maintenance and/or replacement could increase long-term costs and liabilities. Government entities should therefore establish capital planning, budgeting and reporting practices to encourage adequate capital spending levels. A government's financial and multi-year capital plans should address the continuing investment necessary to properly maintain its capital assets. Such practices should include proactive steps to promote adequate investment in capital renewal and replacement and necessary expenditure levels for maintenance.

**GFOA recommends that local, state and provincial governments establish a system for assessing their capital assets and then appropriately plan and budget for any capital maintenance and replacement needs. This recommendation includes:**

1. Developing policies to guide capital asset management practices that are supported by both finance and operational/engineering expertise. These policies should require a complete inventory and periodic measurement of the physical condition and existence of all capital assets. The assessment should document the established methods of condition assessment for all types of capital assets. This physical condition inventory and measures used should be kept current, with facility condition ratings updated every one to three years. The frequency of physical condition rating and asset inventory updates may vary depending on several factors, including the capital asset age and type, likelihood of degradation, and ease at which assessments can be conducted. A qualified engineer should assist with the preparation of the plan as it relates to infrastructure or any other capital asset type that the governmental entity does not have qualified staff to assist.

This inventory should be linked in some manner with the government's capital assets schedule used by the accounting function such as by an capital asset tagging system. Many governments have installed "perpetual" inventory systems to maintain effective control over their tangible capital assets. Perpetual inventory systems are constantly updated to reflect additions and deletions of tangible capital assets, thus providing managers with direct access throughout the year to reliable information on current balances in tangible capital asset accounts. Such systems are needed to protect tangible capital assets from the danger of loss or misuse.

The department responsible for managing the capital assets should assist in determining the type of information to be tracked by capital asset type.

This inventory should contain essential information, including:

- Capital asset description

- Location
  - Physical dimensions (if needed)
  - "As-built" documents, or a link to where these are stored
  - Warranties, or a link to where these are stored
  - Condition rating
  - Maintenance history Replacement costs (if available)
  - Operating cost information (if needed)
  - Usage statistics
  - Date placed in service
  - Original value
  - Original Useful Life
  - Impairments
2. Establishing condition/functional performance standards to be maintained for each type of capital assets.
    - a. The condition measures and related standards:
      - i. Should be understandable and reliable
      - ii. May be dictated by mandated safety requirements, federal, state, or provincial funding requirements, or applicable engineering and other professional standards. These measures include state government-established standards, bridge sufficiency ratings, Pavement Quality Index (PQI) or Pavement Condition Index (PCI), Facility Condition Index (FCI), etc. Indirect measures such as water main breaks, sewage overflows, etc., are also available for certain capital asset types
      - iii. Should be used as a basis for multi-year capital planning and annual budget funding allocations for capital asset maintenance and replacement. Assets near high risk areas such as hospitals may require a higher standard of performance and require a higher frequency of condition assessment.
  3. Evaluating existing capital assets to determine if they still provide the most appropriate method to deliver services. Understanding how critical the capital asset is to the government, the likelihood and consequence of failure of that asset, and similar factors can help the government identify the true value of the asset to effective service delivery and ensure appropriate resource allocation for maintenance.
  4. Consider developing financial policies that identify and dedicate fees or other revenue sources to help maintain the expected service levels of capital assets.
  5. Allocating sufficient funds in the multi-year capital plan and annual operations budget for the condition assessment determination and reporting, preventative maintenance, repair, renewal and replacement of capital assets in order to continue the provision of services that contribute to public health, safety, and quality of life of the public.
    - Each government should establish an on-going source of funds in both the multi-year capital plan and operating budget for the maintenance and renewal and replacement needs of its capital assets consistent with this best practice. If the capital assets are part of the function of an enterprise fund, the rates, fees and charges may need to be adjusted to meet the funding requirements.
  6. Monitoring and communicating progress toward stated goals and the overall condition of its capital assets with appropriate controls to ensure the validity and accuracy of the information. This process should describe how actual condition and performance compares to the targeted standard for each asset type. For example, "Replacement cycle" can mean the number of years to replace/reconstruct an entire infrastructure network assuming an average annual level of replacement. Example: 500 miles of concrete surface streets in network/ 10 miles average annual miles of streets replaced equals a 50-year replacement cycle. This can be compared to the engineering estimate of the useful life of the average concrete surfaced street.
    - Governments should also review and report the actual operating impacts related to capital investments during project implementation and for a specified time period following project implementation. Governments should likewise monitor and report on the delivery of capital projects by establishing standards for planning, designing and constructing capital projects.
  7. At least once every three years, providing a "plain language" Report on Capital Assets to elected officials and made available to the general

public that describes:

- Condition ratings jurisdiction-wide compared to established policy standards
- Condition ratings by geographical area, capital asset class, and other relevant factors
- Indirect condition data (e.g., water main breaks, sewer back-up complaints)
- Renewal and Replacement life cycle(s) by infrastructure type
- Funding sources for capital assets, including any restrictions that might be imposed on use and/or disposal
- Year-to-year changes in net value of assets
- Actual expenditures and performance data on maintenance and renewal and replacement compared to budgeted expenditures performance data (e.g., budgeted street miles, reconstructed compared to actual)
- Long-term trends extending over the prior four to six or more years. Year-to-year expenditure figures are less valuable due to general inflation rates and the changing supply and cost of construction contractors and contract bids over time.
- Other more "global" measures such as replacement cycle, 3 year-to-year comparisons of work completed (e.g., miles of sewers, water mains, street lights, etc., repaired/replaced), book value, etc., may also be used.

Notes:

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References:

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