AMP Integration:
Lessons Learned from a Neighboring State

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Agenda

• Michigan’s AM Programs (SAW Grant and Water Asset Management Rule 1606)
• Components (Financial Planning)
• Observations
• Similarities/Differences to SB 2
• Lessons Learned
Michigan’s AMP Related Programs (SAW & Rule 1606)

- **SAW - Stormwater, Asset Management, Wastewater**
  - Legislated/Created in 2013
  - Grant funded program to support organizations development of Asset Management (WW and SW systems)

- **Rule 1606 – Water AMP**
  - Organizations serving over 1,000 people required by January 1, 2018.
  - No grant money or funding associated
Michigan’s SAW Program

• $452M made available for grants/loans
• Program allows recovery of most AMP costs, required financial analysis, and certain hardware/software purchases for municipality
• Low interest loans available to support addressing what the AMP discovers
• No entity excluded as to population size and/or number of connections

1) Villages
2) Townships
3) Cities
4) Authorities/Drain Commissions
Michigan’s SAW Program

- $2M Cap per municipal entity
- 10% Match required for first $1M, 25% Match required for second $1M of grant/loan
- Financially Distressed Communities that Qualify not required to provide Match
Mandatory Requirements

- Chosen organizations must proceed with AMP study or pay back grant/loan with penalty interest
- Certify to the State of Michigan (MDEQ) that the AMP analysis has been completed within 3 years of award
- Provide Financial Gap Analysis (revenue vs expenditures) to State’s MDEQ within 2.5 years of award, indicating effects on sustainability
- Provide within 3 years of award a 5 year rate plan addressing AMP implementation as formally approved by Municipality, if revenue gap exists
Michigan’s SAW Program

- Costs incurred after January 2, 2013 recoverable
- Municipality can submit monthly requests to recover costs

**Recoverable Costs**
- Most Stormwater and Wastewater AMP Assessment costs
- GIS Hardware/Software Including Computers, CMMS and Training
- Consulting Services related to capacity analysis, condition assessment and financial planning

**Non-Recoverable Costs**
- Assessment Costs related to any non SW and WW system
- Televising Costs of newer WW systems (<20 years)
Michigan’s SAW Program

- On December 2, 2013, 673 Submittals requesting $541M in Grants/Loans under the SAW Program
- State conducted a “Lottery” process to list each request from #1 to #673. No Requested Project is excluded
  - No Scoring or Prioritization based decision
  - But it worked fine, no real complaints from the communities
- State announces awards will be made in 5 rounds as the money becomes available
- Continuing to award today
## Michigan’s SAW Program

<table>
<thead>
<tr>
<th>ROUND</th>
<th>DATE</th>
<th>AMOUNT</th>
<th># of GRANTS AWARDED</th>
</tr>
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<tbody>
<tr>
<td>ROUND 1</td>
<td>May 2014</td>
<td>$100M</td>
<td>97</td>
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<tr>
<td>ROUND 2</td>
<td>Sept. 2014</td>
<td>$91M</td>
<td>118</td>
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<tr>
<td>ROUND 3</td>
<td>Oct. 2015</td>
<td>$100M</td>
<td>135</td>
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<tr>
<td>ROUND 4</td>
<td>Oct. 2016</td>
<td>$97M</td>
<td>137</td>
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<tr>
<td>ROUND 5</td>
<td>Oct. 2017</td>
<td>$64M</td>
<td>80</td>
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AM Components of the Programs - SAW

- Must Address 5 Key Areas to Comply
- Asset Inventory & Condition Assessment
  - Condition
  - Probability of Failure
  - Consequence of Failure
  - Criticality of Failure
- Level of Service Considerations
- O&M Strategies to address concerns
- Capital Improvement Program (CIP) Identified/Revenue analysis to integrate AMP findings
- Detailed report end of 3 year Grant Period for public. MDEQ certification of completion.
AM Components of the Programs – Rule 1606

- Inventory of assets
- Criticality assessment
  - Methodology (LoF/CoF)
- Level of service goals
- Capital improvement plan
  - Identify 5 & 20 Year Needs
  - Assets should be prioritized and assembled into the CIP.
- Funding structure and rate methodology
- AMPs must be implemented by January 1, 2018 *
- Latitude for water systems to tailor the programs to fit their situation
- Anticipate 5 year update frequency
Financial Analysis Aspect of the SAW and 1606 Program

- State requires financial analysis/rate study of implications of AMP findings/CIP Spending
- State also requests interim financial analysis at 2.5 Year mark, prior to the completion, in most cases, of the AMP analysis
- Requires submittal of municipal approved rate plans (1606)
Financial Analysis Considerations

Revenue Requirements
- Operating Costs
- Capital Costs
- Financial Policies
- Debt Coverage
- Reserves

Cost Allocation
- Define Classes of Users
- Fair & Equitable
- Comparison to Current Revenue Recovery

Rate Design
- Evaluate Objectives
- Conservation
- Identify Structures
- Customer Impacts

Analysis & Outreach
- Fee & Policy Review
- Adjustment Drivers
- National Trends
- Local Practices
Where are we today

- **Round 1** awardees completed (Nov. 2016/May 2017)


- **Round 3** awardees getting close (April 2018/October 2018)

- **Rounds 4 and 5** awardees underway (Fall of 2019 and 2020 Required Completion Dates)
Observations to Date:

• Municipalities want more money (Grant) to fix what is found in AMP analysis
• Engineering firms provided significant development of submittals for communities
• Understanding of program requirements and timing included coordination/confirmation discussions between MDEQ and communities to ensure acceptance
• AMP takes significant monetary and human resources to develop. Funding options were very helpful. More difficult to do without
• Many communities utilized the program for implementation of CMMS
Observations to Date:

- Varying degrees of municipal expertise to support AM development
- Some municipalities wary of State involvement; one reason why municipalities did not apply.
- AM-based CIP before AMP – most likely not in existence for most SAW Grant recipients
- GIS became the backbone to AM for most organizations through this process; some already had mature systems but started from scratch.
- Elected officials initially reluctant in adjusting rates/AMP findings supports need and timing of future rate hikes
- Appropriate Financial Analysis mitigates rate impacts while implementing AMP on a timely basis
Similarities/Differences to Ohio Senate Bill 2

- Does the Michigan Experience Provide Guidance? Yes and No!
- Many Similarities/Differences
- Lessons learned to the North most likely applicable for SB-2 participants
The Michigan AMP Program / Ohio SB-2

Similarities

- State organizations recognized need and value for formalized Asset Management within communities
- Proactive development of programs to support communities
- AMP Requirements (Principles similar across all sectors)
  - Asset Inventory
  - Condition Assessment
  - Risk Analysis
  - LOS/KPI
  - O&M
  - CIP/Funding & Financial Analysis
- Focused on long-term Benefits/Returns of Implemented Program
Differences

• Michigan had Grant Program (SAW) and mandate; SB 2 is State Mandate
• SAW was first and focused on Sewer (Sanitary/Storm); Water followed
• SB 2 is currently occurring; Sewer will be coming...
• SAW not mandated by a defined Date; 3 year timeframe to build program/update AMP after award
  – Rule 1606 had due date
• SB 2 Managerial Components (Organization Programs, Policies, Procedures)
• SB 2 Requirements: EAP, Contingency Planning, Source Water Protection, Capacity Projections
Lessons Learned

- Formal AMP development is not a quick “project”; starting point for program incorporation
- On-going learning process; organizations are still familiarizing themselves to what is involved
- Will take time to reap benefits - Investment
- DPW Directors and Staff receptive to a formalized methodology
- Opened eyes to some; some were not because they were already aware of their issues/needs
  - “It is not a question of IF a major event will happen, but WHEN…”
  - “You don’t know what you don’t know…”
- A good tool for owners and operators to take to elected officials to provide justification
Lessons Learned

• Needs to be a living process and become a part of current business processes within organization; those that “shelve” the AMP will not reap the benefit

• Foundational components of AM is the same; however, what is critical in your system may not be critical in another community’s system

• Financial picture and political climate vary by each community

• No two AM programs will be the same; are not cookie cutter programs; customize to their program; priorities will be different

• Change Management will be a major component
Questions/Discussion

Thank You!!!
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