TO DELAY OR NOT DELAY: Dangers of Deferring Maintenance or Replacement

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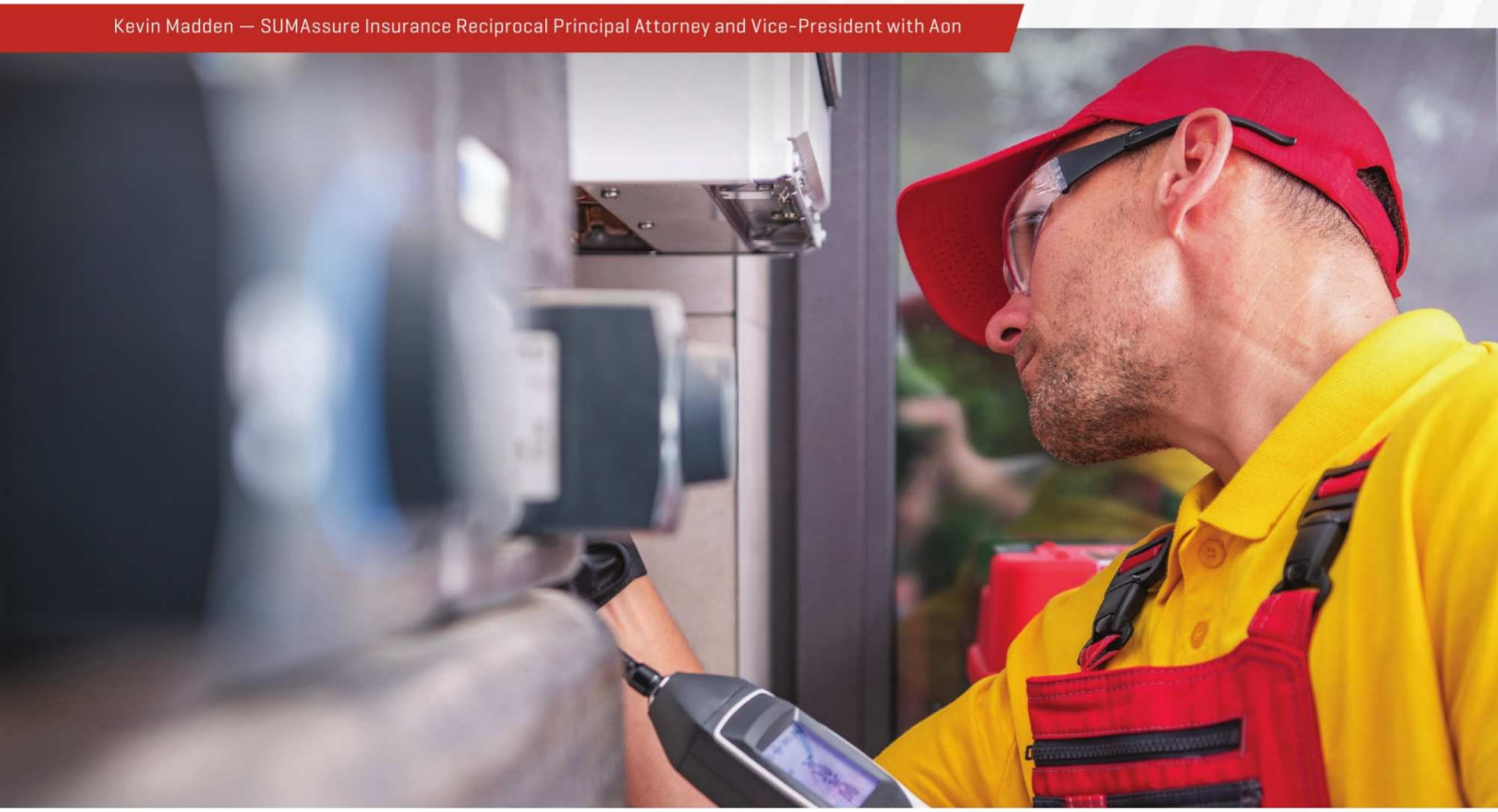

All municipal councils face budget restraints and restrictions due to a variety of reasons. Multiple projects are reviewed, and decisions must be made to allow certain items, decline certain items, and defer certain items to a later date. One of the most common budget items is to replace or repair existing facilities or municipal equipment. Frequently, a decision is made to defer maintenance or replacement with the intention to save costs in favor of other projects.

With respect to deferred maintenance, while it might seem simple enough to deal with it later, without a consistent, proactive approach to asset management, there could be financial impacts: things such as costly emergency repairs, reduced equipment efficiency, or even entire system failure. Downtime is a costly factor often overlooked when employees are faced with reduced productivity.

Perhaps the most important consideration is the safety issues to employees or the public that could result from the decision to defer or decline to repair or replace an asset. There could be health risks associated with poor air quality, mold, and mildew. A municipality may also face severe fines and penalties for non-compliance to health issues or occupational health and safety measures for improperly maintained equipment. There is no better example of this than the death of three individuals in an ammonia leak at an arena in Fernie, BC, in 2017.

Normal life expectancy of an asset should also be considered. Life expectancy is simply the amount of time an asset is expected to be utilized before it needs to be replaced. All assets have a life expectancy, and several factors are used to determine it.

In all cases, the assumption is made that regular maintenance and repairs are done on an asset to maintain the expected life use of the asset. Less maintenance means reduced life expectancy. For example, the average life expectancy for an asphalt shingle roof is 22 years. With little to no maintenance on the roof, you can expect that issues will arise.

Take for example, a 30-year asphalt shingle roof has sprung a small leak and will require $1,000 to repair or $25,000 to replace the shingles. A decision is made to defer the repair/replacement due to budgetary reasons. During the next rainstorm, the leak has turned into a serious problem and there is water coming down through the celling inside the building. Now that an inspection is done, it is discovered

the entire ceiling needs to be replaced, insulation needs to be replaced, and there are damaged light fixtures as well as flooring that needs to be replaced in the area of the water damage. The estimated costs of repair are now between $50,000 to $100,000 — plus the roof needs to be replaced.

The first reaction would be to turn to insurance to cover the damage. There may be issues in claiming coverage, depending on your insurance policy. In many cases, insurance policies will have exclusions, such as wear and tear or improper maintenance: an exclusion that states normal deterioration or improper maintenance of an asset is not covered by the insurance policy — meaning there will be no financial relief for this loss.

This also creates an impact on your insurability going forward. Insurance companies often require regular updates on key factors such as heating, plumbing electrical, and roofing. When an inspection is completed and it is discovered the roof is beyond life expectancy, the insurer will likely start to restrict, impose much higher deductibles, and in some cases decline to write the building any longer. The municipality will then be faced with a growing problem of inadequate insurance or hard to place insurance. While this may sound extreme, this is a very common problem faced by municipalities and their insurance carriers.

A strong risk management plan should be developed, and this plan should include:

- An asset management plan.
- Appraisals.
- A life expectancy review.
- Established maintenance and replacement budgets for each asset.
- A maintenance plan for facilities and equipment, which includes annual and/or semi-annual inspections and reports on each facility that address at a minimum the following items:
  - electrical
  - plumbing
  - heating and air conditioning
  - boilers
  - chilling and refrigeration systems
  - roofing
  - foundation
  - building envelope
  - windows and doors
  - sprinklers and other fire suppression equipment
  - emergency equipment
  - maintaining maintenance logs and records

You are not alone. While many of the items noted above can be developed by your facility maintenance staff, you may want to reach out for assistance from outside sources, such as appraisal companies, your insurance brokers, insurance companies, and contractors. A budget should be established to access each of these resources if your staff does not have the expertise or resources to achieve each of them.

The next time you see a report sitting in front of you from your facility manager or public works manager requesting a new furnace, take a minute to think beyond the budget in front of you and consider some of the other factors that might arise from this decision.