Building An Optimal Facilities Capital Budget

7 Steps to Prioritizing Facilities Projects for an Objective Capital Plan

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Introduction

An organization's facilities portfolio is typically one of the largest items on the balance sheet, second only to employee salaries and benefits. According to the International Facility Management Association (IFMA), organizations worldwide invest more than $100 billion annually on renovating and maintaining their facilities and related assets. Given the enormity of this financial commitment, it is critical for higher education institutions, government agencies, healthcare organizations and large businesses alike to build capital budgets that ensure facilities projects not only address time-critical needs, but also support the organization's overall business goals.

At the same time, organizations face big challenges to their facilities capital planning:

- Budgets are tight, with organizations rarely having 100 percent of the funds they need for every facilities project they have identified.

- Multiple funding pools must be managed, sometimes with restrictions on how the money can be used.

- People involved in the facilities capital planning process often have differing objectives.

The approach large organizations often use to prioritize facilities capital projects is simply not up to today's challenges. It involves juggling facilities data in spreadsheets or multiple systems, and pulling together stakeholders for ad-hoc meetings. This approach is time-consuming, highly subjective and difficult to scale. To meet today's challenges, organizations must establish an objective, repeatable process for identifying, prioritizing and defending facilities capital projects.

This paper highlights seven steps for building an objective facilities capital budget. It includes tips, examples and proven techniques for building the right team, gathering facilities data, establishing project-ranking criteria and budget parameters, and preparing a budget for approval.

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1. Build A Foundation

The purpose of establishing an objective, repeatable process for facilities capital planning is to identify what is important to the organization and how each proposed facilities project relates to those items. The result: a defensible and a process that can be applied and reapplied to a large number of projects despite changing circumstances.

Before assembling a team and jumping into project prioritization meetings, you should first establish a solid foundation for evaluating projects. This step begins with identifying your organization's strategic business goals, which you will use later to align with facilities projects.

The goals might be found in an existing organizational strategic plan, or you might need to meet with company executives to uncover them. They should articulate the organization's strategic objectives and expectations about the future.

Tip: This step should be initiated by someone whose goal is to put a more defensible process in place around facilities capital budgets — often an organization's facilities leader, finance leader or both.

2. Form The Right Team

When it comes to creating facilities capital budgets, organizations typically have more needs than dollars. The budget process then comes down to one key question: Where are the best places to invest the resources we have?

The right team to answer the question should include people with diverse perspectives who can establish criteria for ranking projects and then apply them to the facilities projects being evaluated. Here are some things to consider when building the team:

- **Invite decision-makers.** The resulting budget will be more likely to be approved when team members with decision-making authority have been involved in developing budget parameters and project ranking criteria.

- **Consider those vested in the outcome.** While a person's title might indicate their interest in the facilities capital budget, that is not always the case. Spend some time talking with your colleagues to ensure they are motivated to participate and remain engaged in the process.

- **Gather multiple perspectives.** Having representatives from functional areas responsible for and/or affected by capital project decisions will give the team varying perspectives. This will also increase organization-wide buy-in for the resulting proposed budget.

Tip: While decision-makers are critical to the budget process, they also have limited time for meetings. Hiring a firm that offers capital budget planning services can speed up the process and make the most of your team's time.

Here are some key roles to consider for your team:

- **Director of facilities management** — With ultimate responsibility for submitting the final budget proposal for approval, this person often leads the planning team

- **Facilities management contractor**— The facilities leader may rely on one or more contractors for data about specific facilities.

- **Facilities master planner** — This team member provides insights into the overall direction of facilities, including locations that may be moved or closed, or future areas of investment.

- **Budget and finance leader** — A representative with intimate knowledge of available budget and an understanding of projects likely to receive funding approval.

- **Executive sponsor** — This person brings an overall organizational perspective to the table, with insights on strategic goals and initiatives that may affect facilities projects.

- **Business unit representative** — Someone with a grasp on what the business is trying to accomplish and how facilities impact their goals.

Tip: Including too many people on the team may result in delays. Aim for a six-person team, and include a wider group to review the team's budget draft if needed.

Tip: Since not all team members will be familiar with facilities lingo, consider handing out a glossary of facilities terms for team members to refer to throughout the process.

The team should be educated on goals, objectives and terminology.
Once you've assembled the team, ensure they all understand the initial goals you developed in step one, why you are aiming to create a more objective process for facilities capital planning and what terminology you will be using in meetings. Kick off your first meeting by going through each of these topics.

3. Collect And Organize Data

Facilities data will need to be collected and organized to provide context for team meetings. To begin, it is important to look back to the organizational goals identified in step one, because the data you need and how you organize it depends on how you will use it. Discuss goals and needed data with the team to ensure you neither waste time gathering unnecessary data, nor gather too little data to make informed decisions.

Some of the typical types of data you will need include:

- **Building profile** — The size, age, construction type and location of buildings

- **System renewals** — Any systems such as HVAC, roofs and building exteriors that are due for replacement

- **Condition data** — The existing physical condition of facilities, including broken items and code violations

- **Non-condition data** — Modernization and environmental items, as well as time criticality, or how quickly items must be completed based on code requirements or other considerations

- **Business operations data** — Strategic, risk-related, functional needs and operational requirements

These data points may be collected in multiple ways. A Facilities Condition Assessment (FCA) is the process of collecting detailed data on facility condition and deficiencies, generally with walk-through inspections by qualified assessors and engineers. These teams survey the buildings, systems and infrastructure assets using consistent best practice methodologies.

Another option for data collection is a facilities self-assessment that employs a consistent, repeatable process for internal staff. The self-assessment process should be rapid and cost-effective, resulting in data that can identify "hot spots" within the portfolio that require a more detailed condition assessment and help develop quick budgetary estimates.

At the conclusion of this step, the facilities leader should be able to list potential facilities capital projects for the team to consider.

Tip: Gathering facilities data in spreadsheets or multiple systems is error-prone and can be time-consuming and cumbersome, adding weeks and months to the budget process. Storing facilities information in a single software system provides a faster, more complete view of data. Some things to look for in a system:

- **Software-as-a-Service** - Allows you to access software via the internet, and requires no set-up or maintenance from your IT department

- **Flexible Data Hierarchy** - Gives you the ability to customize data based on your organization's unique needs

- **Industry Standards** - Offers standard industry data for facilities costs and system lifecycles

4. Define A Prioritization Strategy

Here is where steps one through three come together to make sense of facilities data and prioritize facilities capital projects. By objectively weighing characteristics of the projects and their value to the organization, this step helps to align facilities projects with strategic goals while preventing team members from championing pet projects.

Tip: The right facilities capital planning software system can simplify your use of pairwise comparison analysis as part of your project prioritization strategy. Choosing a system that also helps you collect and store your facilities data will give you the added benefit of being able to apply your prioritization strategy to each of your projects via a single system.

The Pairwise Comparison Method

An effective approach to project prioritization is "pairwise comparison analysis." This mathematical method reduces complex decisions to a series of simple comparisons, and applies weights and values to ranking criteria. Pairwise comparison analysis provides flexible and meaningful analytics, and ultimately de-politicizes the project prioritization process.

Here is a brief example of how a pairwise comparison analysis might work for a large university planning their facilities capital budget:

First, the team shares ideas in a brainstorming meeting, pulling together a list of criteria to consider when ranking each project, including both condition and non-condition data. The list takes into account the organization's business goals as identified in step one.

For this example, the following five criteria and values for each criterion have been selected. Note: Every organization will have its own criteria that meet its specific business objectives. Because each value has a different impact on each criterion, each value is weighted with points. A project with the highest scoring value for each criterion would score a total of 100 points.

Time Criticality:

Urgency of project from a technical perspective

- Currently Critical (1 year)   **31 points**
- Potentially Critical (2 years)   **23 points**
- Necessary, Not Yet Critical   **15 points**
- Not Time Critical   **3 points**

Building Condition

Overall condition of building in which project will take place

- Excellent   **1 point**
- Good   **3 points**
- Fair   **6 points**
- Poor   **1 point**

Building System

What system is impacted by the project?

- Electrical   **27 points**
- HVAC   **26 points**
- Fire Protection   **24 points**
- Roofing   **22 points**
- Conveying   **21 points**
- Plumbing   **18 points**
- Communication   **14 points**
- Roads, Parking, Landscape   **9 points**
- Special Construction   **8 points**
- Structure   **7 points**
- Interiors   **5 points**
- Equipment, Furnishings   **22 points**

Building Use

How is the building being used?

- Academic   **22 point**
- Student Life   **21 points**
- Residential   **18 points**
- Athletic   **15 point**
- Administration   **10 point**
- Common Use   **5 point**

Category of Issue

What is the reason for the project?

- Integrity   **14 points**
- Risk and Accessibility   **13 points**
- Reliability   **12 points**
- Functionality   **10 points**
- Operations   **7 points**
- Appearance   **2 points**

Once the criteria, values and weighted points for values are established, each project can be easily evaluated and scored. The following example "scorecard" for a particular project shows that "Time Criticality" has the highest-ranking value (Currently Critical), and scores a relatively high 31 points. Each criterion is given a score based on the points of the value the team gave it, and the total project receives 82 points out of 100.

Ranking Criteria	Value	Score
Time Criticality	Currently Critical	31
Building Condition	Fair	6
Category of Issue	Reliability	12
Building System	Plumbing	18
Building Use	Athletic	15
Total Project Score		**82**

Each project then can be listed in order by total number of points (from highest to lowest) for a prioritized list of facilities projects. Even with a prioritized list, the organization has the ability to override the recommendations to handle specific situations. For example, the organization may combine all roofing projects, which may be spread over several years, into one major project to reduce costs through economies of scale. The organization can also have multiple prioritization approaches for many reasons, including targeting different parts of the facilities portfolio, spending different budgets or comparing different approaches.

5. Prepare The Budget

Once your team has created a prioritized list of projects, it can then determine which projects will be completed in any given year. Consider:

- Funding sources and constraints.

- Funds to be set aside for unexpected or emergency expenditures.

- Possible fluctuations in construction cost inflation rate.

The ultimate result is a multi-year budget based on an objectively ranked list of capital facilities needs, with projects that reflect the goals of the organization and clear assumptions about funding and costs.

To demonstrate the impact of funding for projects, the team also should prepare funding scenarios to present alongside the budget. For example:

Scenario 1: Maintain the current condition over a 10-year life

Scenario 2: Improve the condition over the first 5 years, and then maintain at that level for the remaining 5 years

Tip: Running budget scenarios manually can be time-intensive. Using a facilities capital budget software can apply your prioritization process and automate calculations of changes in funding and priorities. So, if funding levels change, the budget scenario can be readily reapplied to determine the impact on funded projects. If organizational priorities change, ranking strategies can be quickly modified to reflect new priorities.

6. Get Approval

Armed with an objectively prioritized list of projects, funding scenarios and data to back up reasoning for the prioritization, it's time to present the budget for approval. Since those approving the final budget may not have been involved in the team's meetings, a few approaches may help to make the approval process faster and smoother:

- **Explain the methodology.** Summarize the prioritization process your team used so that budget reviewers understand how the budget was created.

- **Present the findings.** Show the results of the team's prioritization exercises.

- **Include scenarios.** Explain the impact of some exceptions or changes to projects.

- **Have backup data.** In case budget reviewers have questions, include detailed data from your team meetings so it is readily available for reference.

- **Be prepared to make adjustments.** As priorities and budget levels change, be prepared to re-visit the project-ranking criteria and modify the budget.

Tip: Gather data on 25% of the facilities portfolio each year so that all facilities are assessed every four years and the condition assessment data stays current.

7. Sustain and Maintain the Program

Having an approved budget in hand is not the end of the budget process. In some ways, it's only the beginning.

Facilities data must be continually collected, updated and stored as buildings and systems age, codes evolve and other circumstances change. The prioritization process also must be reviewed and reapplied. Bring the team back together for an annual review of the prioritization strategy to identify new needs and ensure the process remains in sync with organizational objectives and monitor progress.

Facilities Capital Budget Planning Do's And Don'ts

DO'S

Take the First Step
You shouldn't (and don't have to) live with a broken process just because it's the way you've always done it.

Start Small
Create your process around one section of your budget, one location or one project, and then expand.

Start Early
Allow plenty of time to create your process and evaluate projects before your budget submission deadline.

DON'TS

Lose Track of Your End Goal
It's easy to get so lost in data and processes that you can't analyze them effectively. Gather only the data you need, and keep conversations focused on your goals.

Take Shortcuts
While you don't want to get mired in data and processes, you also don't want to skip steps. Getting your prioritization process right the first time will save time in the long run, as you will end up with a solid, repeatable process that can be applied to future projects.

Wait Until There's a Crisis
If you wait to develop prioritization processes until after a critical facility issue or when an executive demands more detailed data and objective reasoning behind a submitted budget, your process development will be pressured and rushed.

The Rewards Of An Objective Facilities Capital Budget Process

With the right facilities capital budget process in place, your organization will have:

- A consistent, scalable approach to evaluating projects across the facilities portfolio.

- The ability to make investment decisions based on objective information.

- A method for ensuring that facilities projects address the organization's mission-critical needs.
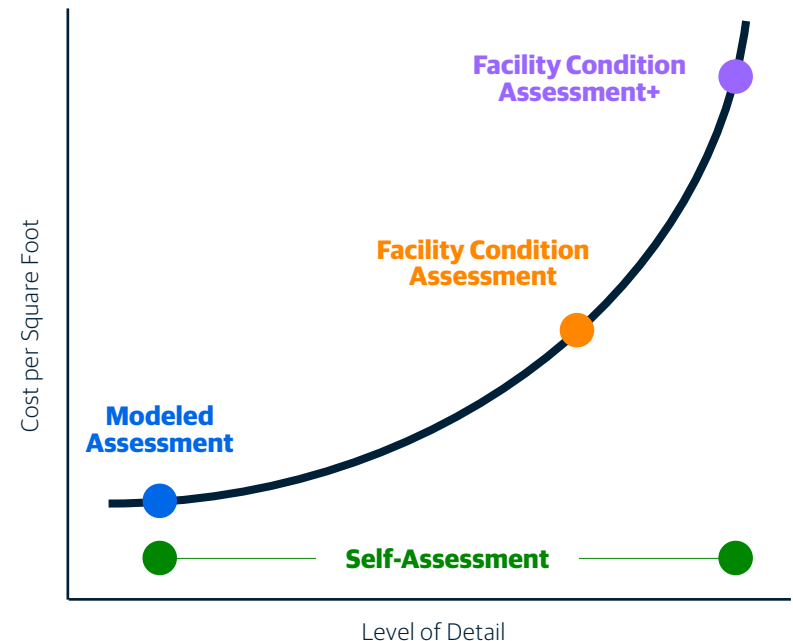
When facilities capital planning efforts are objective and aligned with an organization's goals, capital investments can be optimized to deliver greater value. The reward: far superior and more defensible results that align facilities with the organization's strategic needs.

How Gordian Helps Optimize the Planning Process

With decades of experience gathering and analyzing facilities data and a world-class software platform, Gordian can assist in developing and communicating a clear facilities investment rationale and routing your resources most effectively.

Versatile Assessment Solutions

Gordian offers an array of assessments for gathering the data you need to make informed decisions. These options vary in resolution from high-level overviews to component-level conditions so you can collect the right data for each asset in your facilities portfolio. Plus, you can match different assessments with different assets to allocate your time, energy and financial resources most effectively.

Facility Condition Assessment+

Facility Condition Assessment

Modeled Assessment

Self-Assessment

Cost per Square Foot

Level of Detail

- The **Facilities Condition Assessment+** is our most comprehensive assessment. Our version of the traditional facilities condition assessment is conducted by our engineers and/or experienced assessors. These professionals create a thorough accounting of an asset's every component, system and subsystem, and provide total project costs for executing the work. Additionally, they will produce a list of deficiencies and non-renewal needs, including code compliance. It requires the most time and effort, making it a suitable assessment for strategically important assets and strategically important projects.

- For facilities capital planning decisions at the building level, we have the Facilities Condition Assessment. This evaluation will also bring a Gordian assessor on-site to evaluate major systems like HVAC and plumbing and provide a baseline of needs, but not an estimate of total project costs.

- Moving down the spectrum of detail we have the **Modeled Assessment**. This option uses statistical modeling to estimate the replacement and renewal costs of building systems at a given age. It does not produce estimates for specific facilities.

- Finally, for mature capital planning organizations with staff steeped in condition assessment best practices, Gordian offers the **Self-Assessment on Gordian Cloud Platform**. This cutting-edge software gives organizations the data capture tools they need to optimize the efforts of their in-house staff.

Gordian Cloud Platform

The revolutionary Gordian Cloud Platform delivers critical capabilities and connectivity across the building lifecycle. Intuitive and robust, it equips you with the data you need to make decisions with confidence, knowing you have the full picture at your fingertips.

About Gordian

Gordian is the leading provider of Building Intelligence™ Solutions, delivering unrivaled insights, robust technology and expert services to fuel customers' success through all phases of the building lifecycle. Gordian created Job Order Contracting (JOC) and the industry-standard RSMeans™ Data. We empower organizations to optimize capital investments, improve project performance and minimize long-term operating expenses.

To learn more, visit gordian.com/fca or contact us at info@gordian.com or 800.874.2291