BY SUSAN ANSON

PRIORITIZING CAPITAL PROJECTS

When the queue of capital projects across a portfolio exceeds available funding, facility managers must identify and prioritize critical projects. By using criteria such as code compliance and organizational objectives, facility managers can take the politics out of capital planning

Most facilities teams face the same dilemma: literally hundreds of capital projects and a limited budget. Given this never-ending challenge, organizations must find an objective approach to prioritizing projects that eliminates the guesswork and politics. By relying on solid data and a clear understanding of organizational objectives, facilities managers can determine what to do first and demonstrate how they reached that conclusion.

Items that are critical to the continuous operation of key facilities must be moved to the top of the list and can't be lost in the chaos of budget cuts. Whether a facility is a data centre, hospital, school, or military base, if it serves the mission of the organization, its condition is crucial and its shutdown can have serious consequences.

These critical projects must be identified and prioritized, and defensible data is needed to get them funded. Developing an effective long-term capital plan requires an organization to maintain a comprehensive understanding of the entire facility portfolio, determine what improvements are required, prioritize those improvements to align with the overall goals of the organization, and ensure that the budget is spent as planned.

With the right data and the ability to prioritize by criteria such as life and safety, compliance with codes, mandates and regulations, functional adequacy, and mission impact, facilities teams can make better informed spending decisions and begin to convert facilities data into an actionable capital plan.

CREATING A MULTI-YEAR CAPITAL BUDGET

Most organizations have a five- to 10-year horizon for reviewing their capital requirements. Prioritizing capital projects begins with categorizing identified deferred maintenance requirements that fall within this time horizon into major "buckets." These categories typically include major operations and maintenance projects, such as system renewal, and mandated projects such as those involving regulatory compliance.

The next step in implementing a repeatable, defensible process for identifying which capital project to fund is creating consistent evaluation criteria and using a consistent process to apply those criteria. Identifying criteria and ranking them by importance can limit the sometimes political nature of the capital allocation process. Some of the common criteria organizations use in prioritizing requirements, which they may weigh based on relative importance, include life and safety, relation to code compliance, and strategic importance to the organization's mission and goals.

Another common measure used in evaluating spending priorities across a portfolio is the Facility Condition Index (FCI), an industry-standard parametric tool used to relatively compare building conditions. The FCI is the ratio of deferred maintenance or problem budget to replacement budget. The FCI is typically applied at the building level, but institutions can develop similar indices at the systems or portfolio level to help prioritize maintenance activities and capital investments.

FCI = Deferred Maintenance Cost ÷ Replacement Value of the Asset

The lower the FCI, the lower the need for remedial or renewal funding relative to the facility's value. An FCI of 0.1 signifies a 10 per cent deficiency. An FCI of 0.7 means that a building needs extensive work or that it needs replacing. Different institutions target different FCI levels.

As an example, a facility with a $25-million replacement value and $5 million's worth of deferred maintenance has an FCI of 0.20. It may have several types of deficiencies, including:

- **LIFE SAFETY:** Exit stairs not fire resistant; emergency lighting needs upgrading
- **BUILDING CODE COMPLIANCE:** Doors not fire rated; deficiencies related to electrical outlets, electrical receptacles, entry vestibule and landing
- **BUILDING INTEGRITY:** Aged canopy, entry doors (aging and operational problems); aged exit doors, wear/rust of exterior stair; aged water pipes, ceilings (over patient and

common rooms); water heater deterioration, etc.

- **ENERGY:** Overall site energy issue; lack of control system integration
- **FUNCTIONALITY:** Directional signage inadequate; miscellaneous electrical issues

Ranking the deficiencies by urgency, on a multi-point scale, enables the facilities team to determine one level of relative priority. Using this ranked list and further applying weights based on defined organizational criteria will yield a comprehensive picture of how projects should be prioritized for budget allocation. Statistical ranking methods, such as pair-wise comparisons, can be used to facilitate the process, effectively tying deferred maintenance requirements to organizational priorities. After each capital request is scored individually, all requests for funding can be ranked by score.

The result is a multi-year capital budget that supports the organization's strategic business objectives.

MAXIMIZING VALUE OF LIMITED FUNDS

When organizations have a basis for making informed decisions about project prioritization and capital budget allocation, they are less vulnerable to emergency failures that can impact their ability to deliver on an organization's mission. Emergency repair projects also typically result in hefty premiums for labour during non-standard work hours, rushed shipments, and unplanned but necessary one-off purchases. These expensive consequences can be avoided with smart planning.

It's important to go into the prioritization process with both a clear view of the end goals and the realization that a strategic capital plan is a fluid document that needs ongoing review against organizational objectives and budgetary realities.

With capital becoming increasingly scarce, the challenge is to deploy it as effectively and efficiently as possible. Organizations must find an effective and efficient process for ensuring that their facilities are running smoothly over the short term while also planning for the long term. Organizations need to ensure that valuable funds are not spent on the wrong projects and avoid costly emergency repairs and downtime. Following a consistent and objective methodology for the prioritization of facilities capital projects lets facilities teams align spending with organizational objectives and have confidence that they are addressing the right projects first. | **CFM&D**

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