

KANSAS CITY CHAPTER

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Finance for Facility Managers

(OR/How we beg, borrow and steal to get our money)

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- Facility finance as it is today.
- Facility finance as it is should be.
- Practical financial tools for building the business case.



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Numerophobia is the fear of numbers. Another name for the condition is *Arithmophobia*.

Fear of the number 13 is *Triskaidekaphobia*

Fear of the number 666 is *Hexakosioihexekontahexaphobia*,

Fear of the number 4 is *Tetraphobia*.

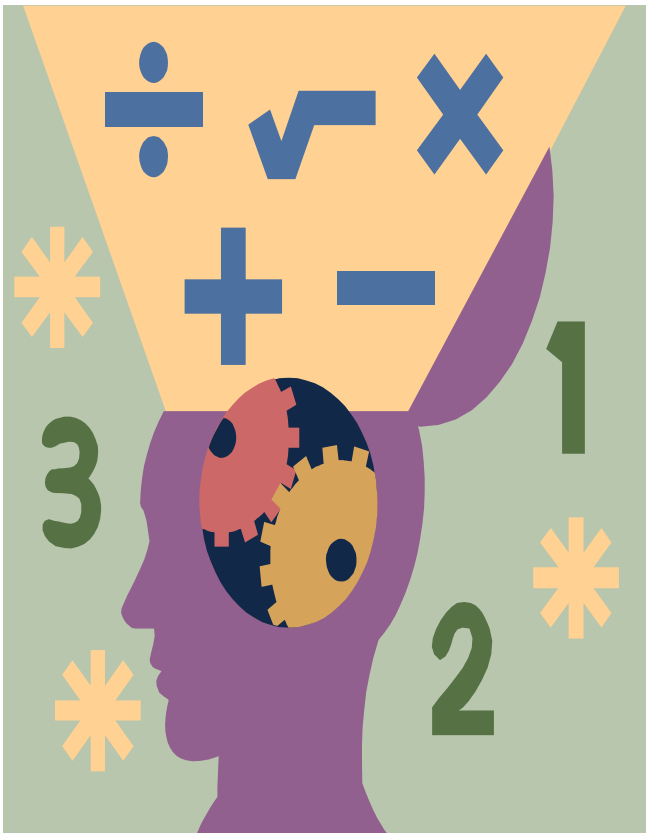
METRIPHOBIA

Pieter van der Have, EFP



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“I’ve changed my view 360 degrees on that issue.”

-- Unknown politician

“Half of the schools in the district are below average.”

-- Unknown school administrator

Exploring the Current and Future Outlook of Facility Management



Trend Number **5** Quantity and Complexity of FM Data

Both the quantity and complexity of information available to facility management continues to explode with advancements in technology, controls and reporting tools. However, this information is not always available in a format that offers usable information; often it is merely unanalyzed data. This leads to facility management increasingly needing to serve in a data analyst role. This expanding role requires an equally expanding set of skills incorporating both the advanced technical know-how associated with managing complex building systems and controls as well as the business acumen in data analysis and presentation.

This surge of available building data began without the benefit of recognized industry standards for interoperability. To address this need, the Open Standards Consortium for Real Estate (OSCRE) has been driving the creation and adoption of data standards for real estate. They have been gaining momentum and members over the last few years, primarily in North America and Europe. The International Organization for Standardization (ISO) also has standards relevant to facilities.

DEMANDS ON FM:

Today more than ever, facility management is expected to proactively manage increasingly sophisticated systems, to understand the wealth of data available, and to make appropriate decisions and recommendations to optimize facility operations. The skills required to manage today's facilities are broader than they were a decade ago. These additional skills may be added through training, hiring or outsourcing—as appropriate to the organization. Personnel are expected to be appropriately educated and properly trained to succeed in their roles.

LEARNING CHALLENGES/ OPPORTUNITIES FOR FM:

- The FM organizationizer
- Recruiting and bright
- Training colleges, to provide training,
- Career path clear
- Tools and measurement, as invest
- Ongoing track critical carbon footprint
- Strategic business resource

Trend Number **8** Evolving Skill Set and Business Acumen

The skill set required of facility management professionals spans a broad spectrum ranging from specific tactical knowledge of building systems to strategic long-range planning. The requisite range of skills has evolved over the years, and there is little reason to believe this will change. It is therefore critical that facility management keeps up with these trends and the evolving skill set, or they will be left behind.

A further indicator of the expanding skill set required of facility management is IFMA's list of core competencies for the Certified Facility Manager® credential. This list was originally eight items, but it has since grown to the following 11:

1. Communication
2. Emergency Preparedness and Business Continuity
3. Environmental Stewardship and Sustainability
4. Finance and Business
5. Human Factors
6. Leadership and Strategy
7. Operations and Maintenance
8. Project Management
9. Quality
10. Real Estate and Property Management
11. Technology

Each of these core competencies is expected to influence facility management in the future by challenging the professional to remain current, especially in the areas of sustainability and technology which are evolving rapidly.

DEMANDS ON FM:

Facility management is demanding, and both the range and depth of knowledge and skills required has expanded over recent years. This certainly places demands on facility management leaders to keep up with the times, always improving their people, processes and services.

Of all the skills needed in facility management, one of the most significant to the profession is business acumen. Facility management has such a significant role

in the success or failure of any organization that FM leaders should be part of the core group of decision makers in an organization. Alas, that is not always the case, particularly when the FM leaders lack the business acumen to be respected as peers by board members and those in the C-suite. Facility management leaders must be able to communicate a measurable return on investment and demonstrate how a given proposal can help to differentiate the organization from its competitors. Top FM leaders are able to speak the language of key decision makers, analyze problems, generate responsible alternatives, evaluate the financial and triple bottom line impacts, and present their findings credibly and persuasively.

There are numerous different hats which may be worn by facility management, from technical expert to liaison with the organization's board room. Rarely can one person perform all duties with all the required skills for any given organization. The management challenge is to place the right people in the right positions.

LEARNING CHALLENGES/ OPPORTUNITIES FOR FM:

In light of the evolving skill set needed, FM organizations should:

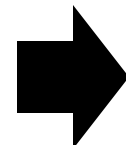
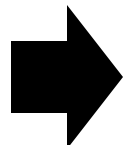
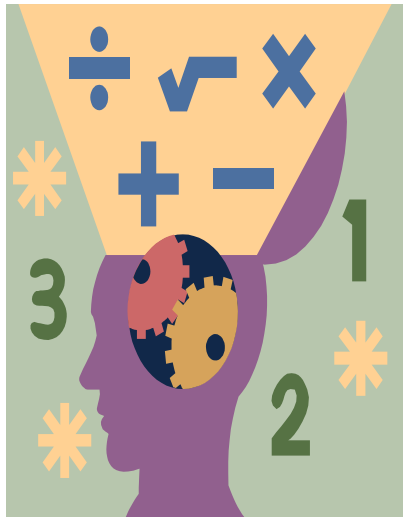
- Honestly assess their current capabilities in each of the core competencies and take appropriate steps to bolster any weaknesses. This may require recruiting, training (or retraining), adding credentials, updating processes and procedures, etc.

In light of the demand for greater business acumen, FM organizations should:

- Develop management and leadership skills beyond traditional facility management. Learn the current best practices of managers, with emphasis on the topics that other senior managers in your organization are studying. For example, what books are they reading now?
- Improve public speaking and presentation skills.
- Learn "the language of the C-suite." What types of information and analyses do top leaders in your organization need to make decisions?

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O&M = \$6.37/sf

Capital Renewal = 1.55%

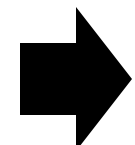
Utilities = \$2.56/sf

Cleaning = \$1.57/sf

PM/CM = \$1.23/sf

Security = \$0.56/sf

At the
end of
the day!



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\$1 = ???

A silhouette of a cable-stayed bridge against a blue and yellow gradient background. The bridge has several tall, dark pylons and numerous cables extending from them to the deck. The sky is a gradient from light blue at the bottom to yellow at the top.

Moving money

3 Terms:

- Capitalization rate
- Discount rate
- Net Present Value/Total Cost of Ownership

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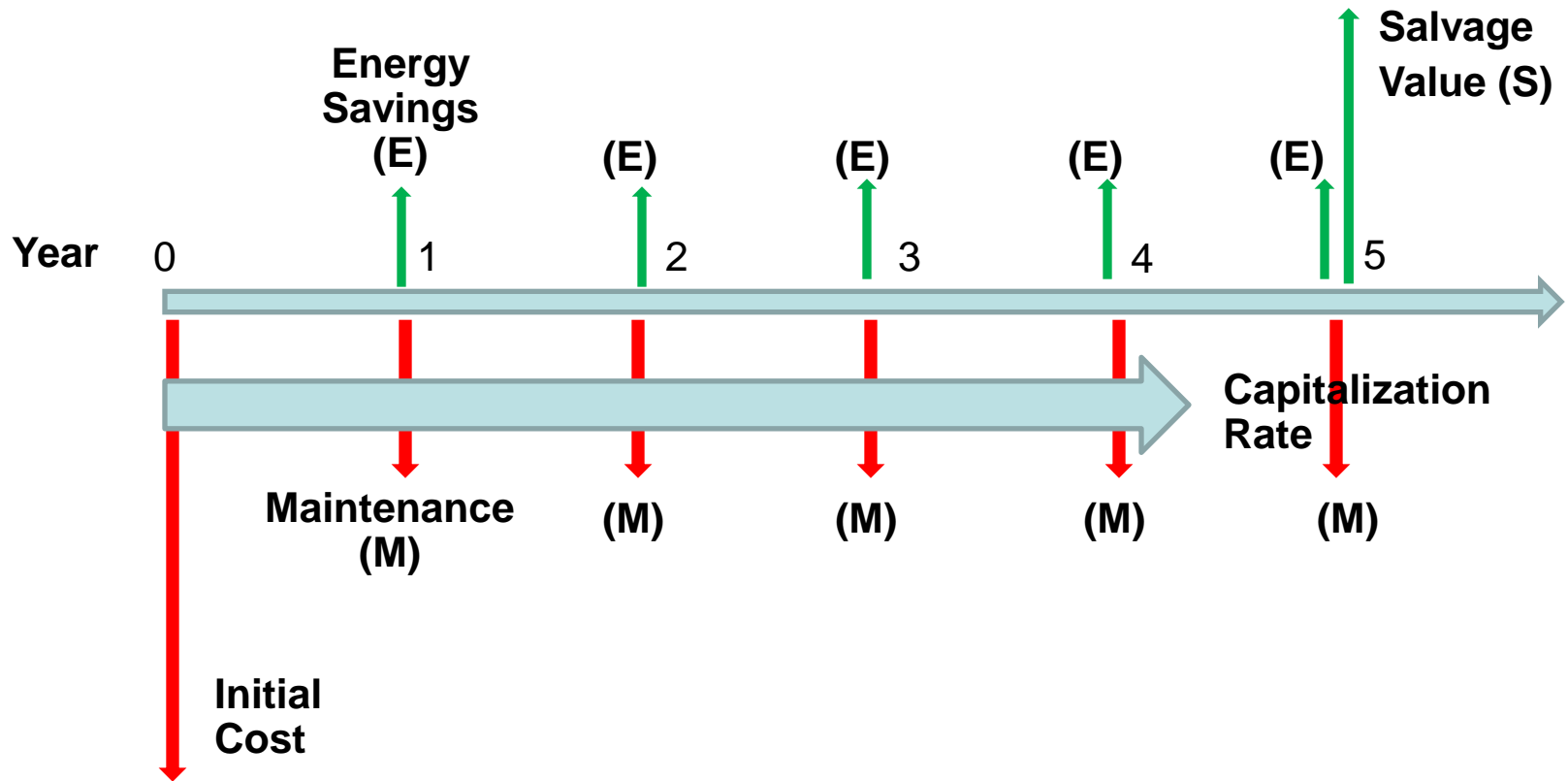


Capitalization Rate

Or: What can you do with \$1



Time Value of money



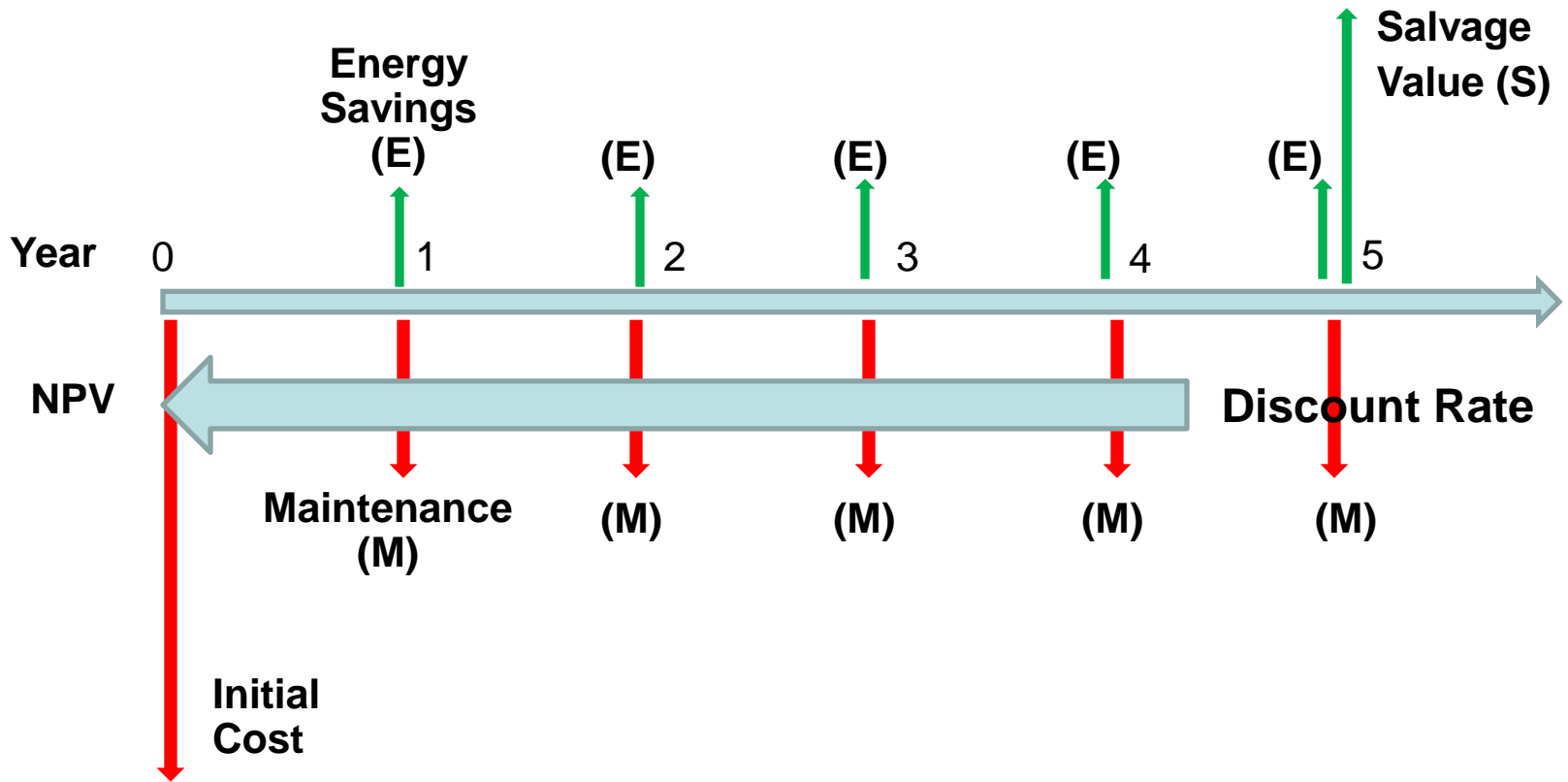
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A silhouette of a cable-stayed bridge with four tall pylons and numerous stay cables, set against a blue and yellow gradient background.

Discount Rate

Or: What it's worth today



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**Discount Rate
= Capitalization Rate**



Total Cost of Ownership (TCO)

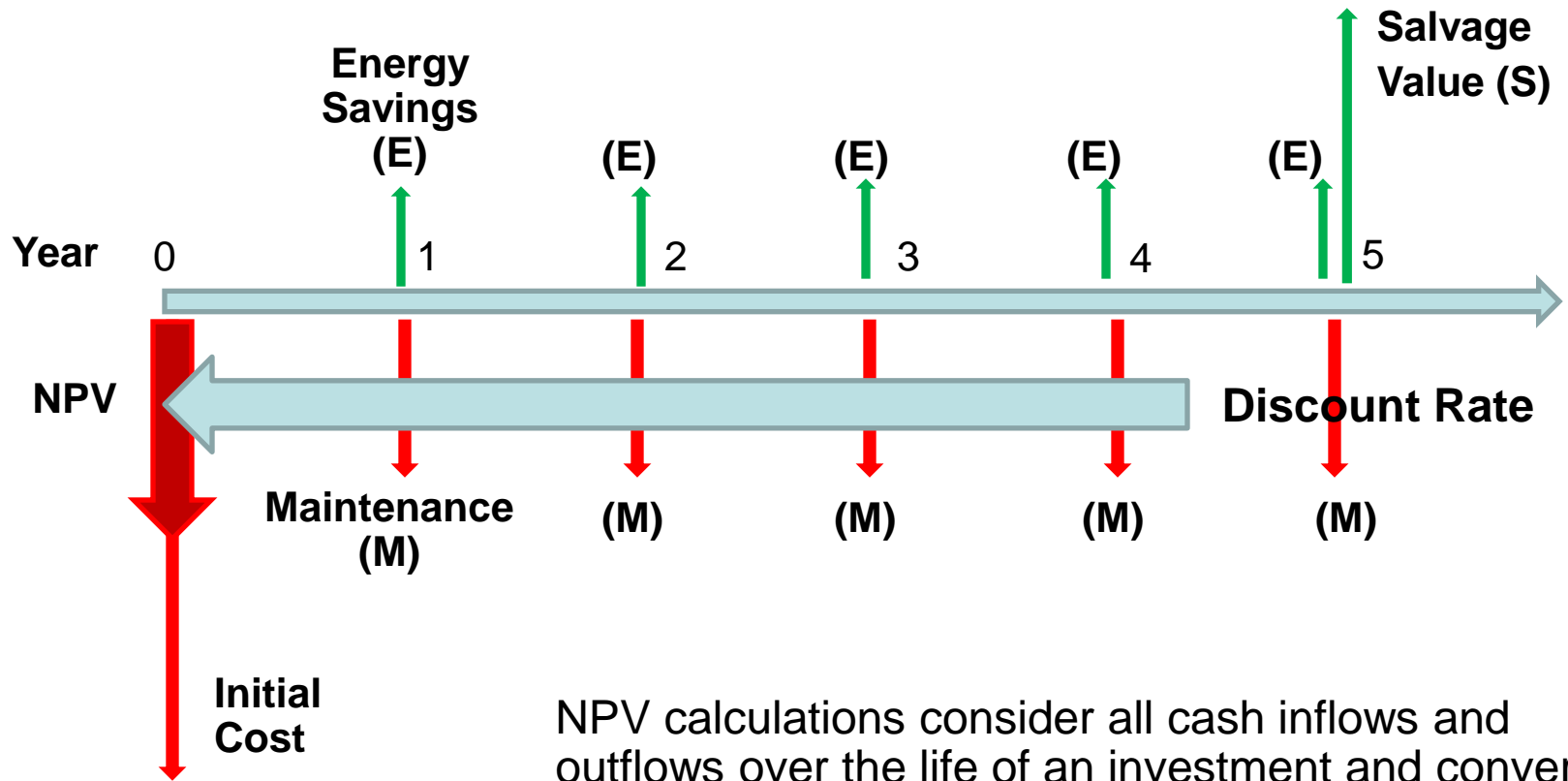
TCO = total of all expenditures an owner will make over the course of the buildings service life.

Includes:

- Conceptual Planning, Design, Construction
- Normal Operations; heating, cooling, lighting, and Maintenance, Repairs, Replacements, Alterations
- Disposal



Net Present Value



NPV calculations consider all cash inflows and outflows over the life of an investment and convert them all to the value of today's dollar.



Moving money

3 Terms:

- Capitalization rate
- Discount rate
- Net Present Value

A few
examples

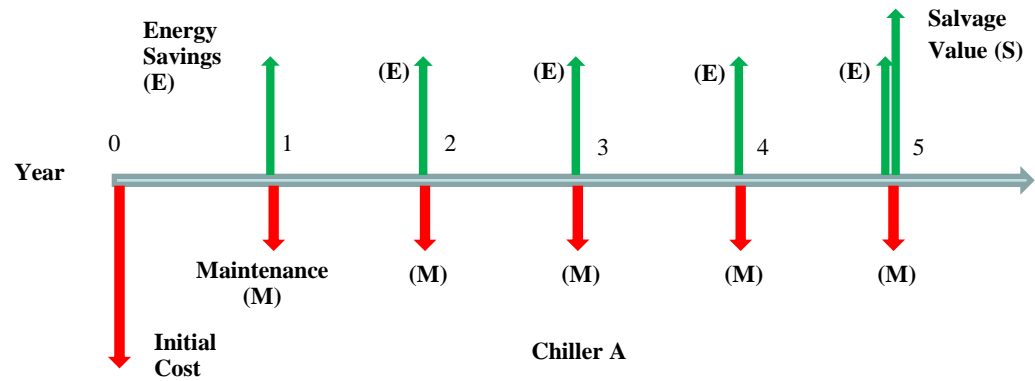
The Lexus and the olive Prius.



Sticker Price	\$24,000	\$45,000
Annual Mileage	18,000	18,000
MPG	42	16
Fuel Price	\$3.50/gal	\$3.50/gal
Annual Maintenance	\$400	\$600
Analysis Period (SL)	5 yrs	5 yrs
Resale Value (5 yrs)	\$10,000	\$12,000

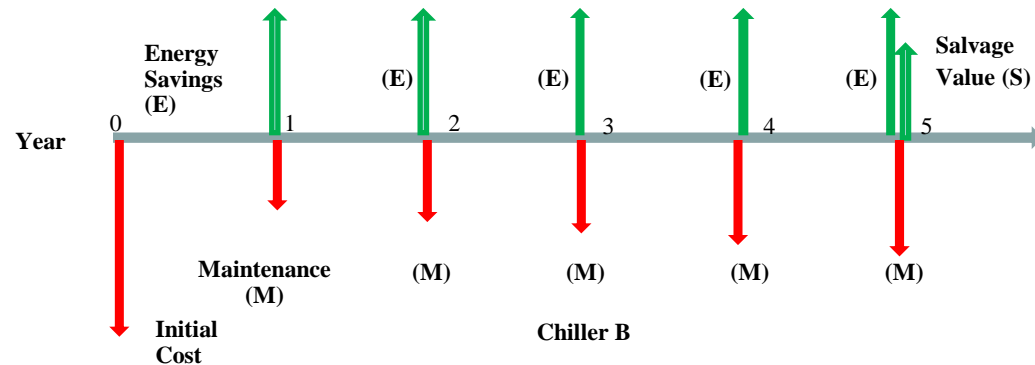


Prius



NPV =
???

Lexus



NPV =
???

Which would you choose?

Chiller A – Initial Cost = **\$150,000**

- Annual energy savings = \$5,000
- Annual maintenance = \$5,000
- Salvage Value = \$15,000

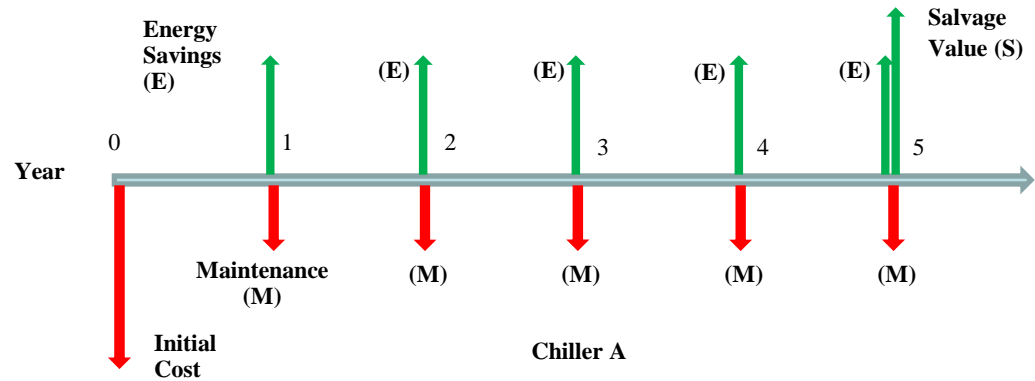
Chiller B – Initial Cost = **\$225,000**

- Annual energy savings = \$15,000
- Annual maintenance = \$8,000 (escalating)
- Salvage Value = \$10,000



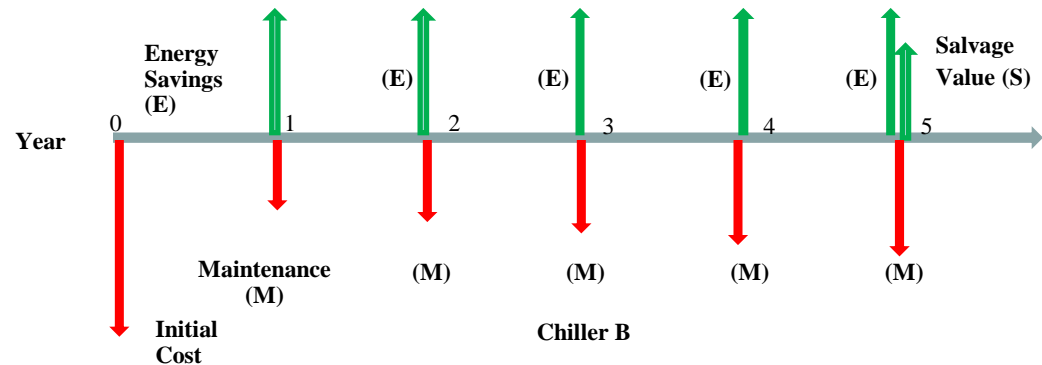


Chiller A



NPV =
-\$325,000

Chiller B



NPV =
-\$300,000

More Tools

- Payback Period
- Return on Investment
- Internal Rate of Return



A silhouette of a cable-stayed bridge against a blue and yellow gradient background. The bridge has several tall pylons and numerous stay cables. The background transitions from a light blue at the bottom to a yellow at the top, suggesting a sunrise or sunset.

Money basics

3 Rules:

- Make your money work for you (value of \$1)
- Know your minimum *expected* rate of return (capitalization rate)
- Your benchmark is the existing condition



Your goal:

Make money work for
your company!



$\$1.33 = \1.46

$\$1.10 = \1.21

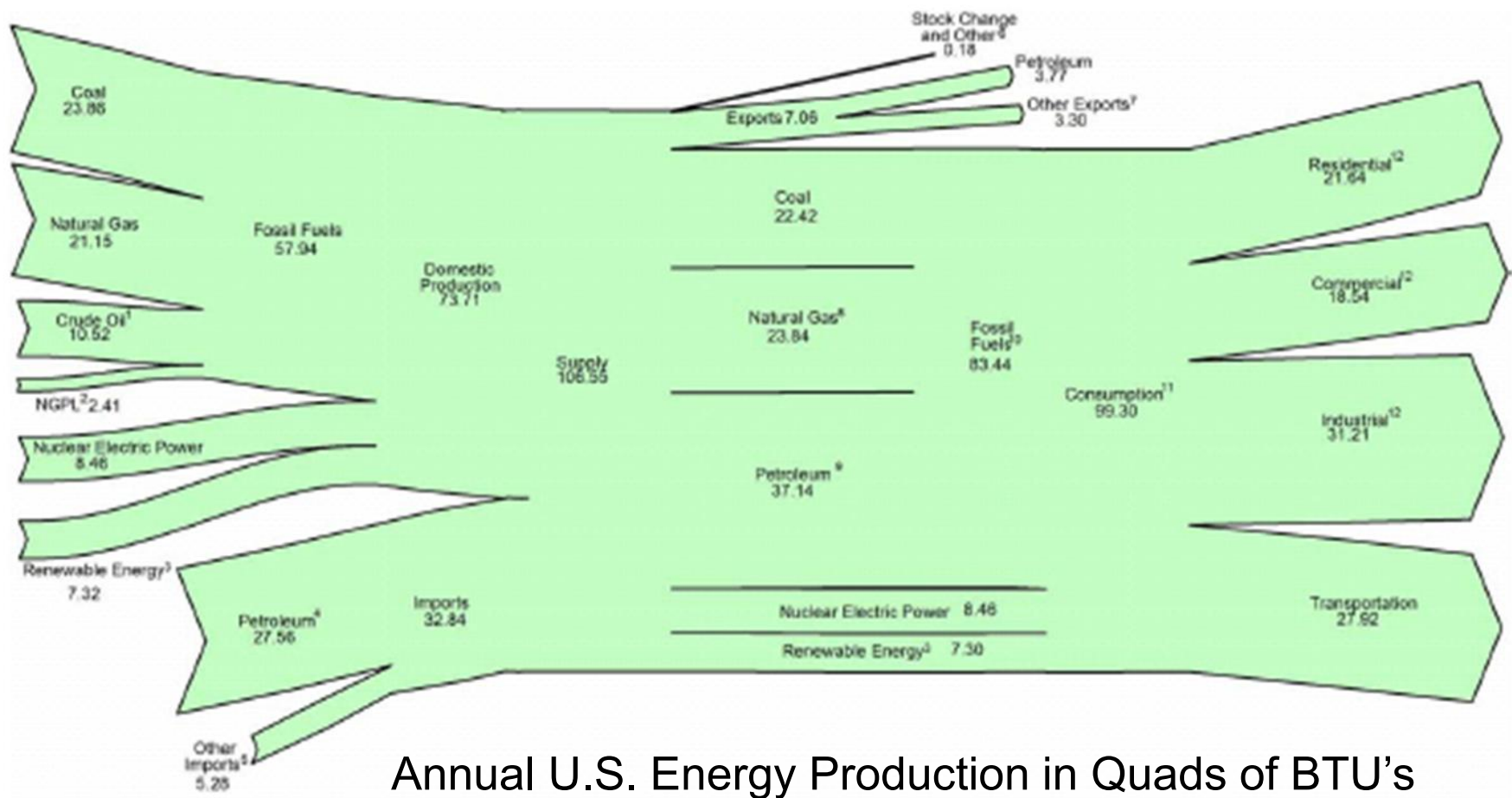
$\$1.21 = \1.33

$\$1.00 = \1.10



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Annual U.S. Energy Production in Quads of BTU's

The Value of Numbers

Wait a second!



1 Second	One	Pretty Quick!
10 Seconds	Ten	Not too shabby!
100 Seconds	Hundred	1.6 Minutes -- Starting to tap my feet!
1,000 Seconds	Thousand	16.7 minutes – waiting patiently!
1,000,000 Seconds	Million	11.6 days – getting impatient!
1,000,000,000 Seconds	Billion	31.7 years – growing old!
1,000,000,000,000 Seconds	Trillion	31,710 years – long gone!
1,000,000,000,000,000 Seconds	Quadrillion	31,709,772 years – too much!

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