PREPARING FOR THE FUTURE

OWNING YOUR O&M BUDGET

BY **ALEXANDER J. WILLMAN**

Developing and monitoring annual operations and maintenance budgets is often a chore that is akin to cleaning out grease traps — necessary, but rarely a task that tops anyone's "get this task completed and receive compliments from everyone" list. While there is no guarantee that a well-planned budget will receive more O&M funding from the organization's bean counters, there are methods facility managers can use — including evaluating past years' O&M budgets as well as other valid information sources — to show the CFO that future O&M budget requests are sound. In other words, they are based upon the facility management operation consistently tracking O&M costs.

Developing and monitoring annual operations and maintenance budgets is often a chore that is akin to cleaning out grease traps — necessary, but rarely a task that tops anyone's "get this task completed and receive compliments from everyone" list. While there is no guarantee that a well-planned budget will receive more O&M funding from the organization's bean counters, there are methods facility managers can use — including evaluating past years' O&M budgets as well as other valid information sources — to show the CFO that future O&M budget requests are sound. In other words, they are based upon the facility management operation consistently tracking O&M costs.

In addition, presenting new O&M budgets in the context of the organization's mission and vision, including sustainability goals, will show that the facility management team is fully cognizant of the value that FMs bring to this aspect of the corporation's face to the public.

With O&M costs always considered an expense against profits, it is essential to gain insight into the drivers of CFO decision making. The results of a Duke University School of Business annual poll of CFOs revealed nearly half believe that the United States economy will be in a recession by the end of 2019, and 82 percent believe that a recession will have begun by the end of 2020. While this may not apply to every global corporation, it is a wake-up call that the past years of low interest rates and a rising stock prices are ending.

How does this impact a facility management operation? It means that future year O&M budget submissions — whether to those in the initial stages of the chain of command, or ultimately to the CFO — need to be more detailed. It is not enough to rehash a wish list from prior years and add an inflation factor. If the O&M budget submission format that the facility management operation has used in past years is an Excel spreadsheet with current costs and budget requested amounts, this needs to be augmented to show the reasons for O&M budget increases (see table on following page).

Using the financial terms that the CFO's office uses with all departments in the organization is also essential. Demonstrating the net present value (NPV) of repairs or replacement of critical equipment is the first step. It goes beyond, "I need a new chiller because this one is old and failing."

Use the future time frame and cost of capital — these are available from the CFO — as the necessary inputs to create an NPV calculation. This can be readily calculated by existing free software. Also ask about the time horizon of future corporate budgets — is it three years or 10 years? Finally, find out if the CFO is amenable to a life cycle cost analysis of the property, equipment and any systems that fall under the maintenance responsibility of the facility management department.

For example, the Office of Facility Management within the Bureau of Overseas Buildings Operation of the U. S. State Department has funding responsibility for the 270 overseas embassies and consulates maintained for federal civilian foreign properties. That office developed a detailed maintenance and repair (M&R) spreadsheet for future year annual budget submissions.

The cost components were based on a template of allowable M&R costs that had been developed over eight years and refined by not only the facility managers at the embassies, but also accountants in the Office of Financial Management.

Table 1 shows a section of the M&R cost components that needed to be completed — or left blank if no funding was request-

	A	B	C	D	E	F
			ANNUAL COSTS			
1	TABLE 1	**Allowable Replacement**	**Repairs Planned**	**End Service Life Replacement**	**Planned Replacement**	**Engineering (replacement only)**
2	**Replacement**	Air conditioner, single compressor 3 tons and greater (36,000 BTU/H)	0	0	0	0
3	**Replacement**	Baseboard heating, hard wired electric with same size units	0	0	0	0
4	**Replacement**	Bathroom cabinets and countertops	0	0	0	0
5	**Replacement**	Boilers, electric, natural gas, oil, diesel	0	0	0	0
6	**Replacement**	Countertop replacement (in-kind)	0	0	0	0
7	**Replacement**	Standard air conditioner filters (excludes chem-bio filters)	0	0	0	0
8	**Replacement**	Drain piping to municipal drain	0	0	0	0
9	**Replacement**	Electrical panel box: replacement with like size	0	0	0	0
10	**Replacement**	Electrical wiring	0	0	0	0
11	**Replacement**	Fan coil units: replacement with equivalent size	0	0	0	0
12	**Replacement**	Fences: replace with equivalent size	0	0	0	0
13	**Replacement**	Furnaces	0	0	0	0
14	**Replacement**	Gates, security, perimeter fence (see security matrix)	0	0	0	0

19 **HOW TO ACCOMPLISH CHANGE**

20 **Set up a meeting** to review future O&M costs with staff, reliable service contractors and others such as manufacturer's representatives, utility company sources and local supply house firms. Designate one person on staff to gather comments from these meetings and identify expected or anticipated cost increases that impact the O&M operation.

Compile these comments into the O&M cost components that are relevant to the organization. Use an electronic table format that can be understood by all who contributed to these costs.

Examine or initiate a comprehensive facility condition assessment (FCA) for all critical properties and equipment. The scope of work for an FCA needs to be detailed regarding which properties, what equipment and what level of service life costs are needed. When completed by either in-house staff or contractors, a well-defined FCA can provide the facility management operation with the remaining service life on critical equipment. This can be another baseline record to show the CFO that, just as IT departments justify new hardware, the FM team has a firm understanding of critical equipment status and replacements needed.

With or without an FCA, **identify those future O&M costs** that will have the greatest impact on the overall budget. Contact the CFO's office for their format for future corporate budgets and use that as the template for the facility operations budgets. If possible, use the generic name of the O&M cost categories (in column one of the example maintenance and repair, or M&R, budget request). These items are essential to consistent and reliable operations. Then identify current year O&M costs in the second column, then costs for years 2 through 5 in the next three columns. Total all columns at the bottom and calculate percentage increases.

ed — for each embassy's FM operation. To ensure that the budget entries were genuine, specific instructions were provided and a webinar was held by the headquarters of the Office of Facility Management to all FMs and their staff.

Once all M&R budget request entries were received, they were "rolled up" into the computerized maintenance management system (CMMS) at the headquarters of the Office of Facility Management. A detailed review was conducted; then a one-page overall M&R budget summary was provided to the director of financial management and his staff, including all the budget details from each embassy's M&R budget submission.

This allowed the director and senior staff to demonstrate, in detail, the M&R costs needed to properly maintain, repair and replace embassy properties, equipment and systems. First completed in fiscal year 2017, this CMMS budget serves as the M&R baseline for subsequent years. This enables detailed comparisons between similar embassies in regions that have comparable climates and local resources.

With the turnover of 200 or more FMs being assigned to a new embassy every two to three years, these electronic M&R budgets were essential for maintaining consistent budgets. Another benefit of this budget process was to answer recurring questions from Congressional staff members about the costs of maintaining embassies and consulates.

When developing future year O&M budgets, questions will always arise concerning the amount to allocate for the costs of unexpected equipment breakdowns and emergencies. Is a 10 percent contingency enough if you are managing a 50-year-old property that has to operate with a 99 percent reliability factor?

There is no solid answer to this question, because of the complexity of commercial, institutional and industrial building systems today. The pneumatic control systems of yesterday — once the tubing was fully installed and tested for leaks and the full system supplied with compressed air — were more reliable than the solid-state building automation systems (BAS) of today.

Locating controllers for a BAS that is more than six years old is a major challenge, let alone updates to the operating software. Knowing what equipment must be controlled for reliable operation, and the service costs for these controls, are essential for future cost planning.

Networking with other FMs who have similar control systems is the best way to gain firsthand M&R costs. For future O&M budget planning, the amount to include for the cost of unforeseen M&R is dependent on the previous experience of FM staff, colleagues and reliable service contractors in the area.

If the requirements for monitoring O&M costs during the corporate budget cycle are not mandated by the CFO, receiving cost reports twice per month is the minimum. Reports should be weekly at the end of the budget cycle. If the CMMS is relied upon for consistent O&M costs, then tout that up the chain of command to the CFO. If the CMMS is inconsistent or unreliable, start the discussion with other FMs to find out which CMMS vendors have demonstrated they know how to meet the product and service needs of similar organizations.

In conclusion, the process of developing future O&M budgets is not only an essential planning tool for the facility management operation but it can also serve as the basis for monitoring and reporting these costs during the annual business cycle. With many CFOs forecasting an economic slowdown in the near future, now is the time for O&M budgeting and monitoring to demonstrate consistency to the organization's executive leadership. FMJ

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