

Capital Planning 101

What and Why We Need it!

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Presentation Will Cover:

- What is Capital Planning?
- What is the Need for Capital Planning?
- What are the Benefits of Capital Planning?
- Defining the Steps Needed to Develop a Plan
- Prioritizing Your Planning Items
- Review an Example of a Capital Plan

What is Capital Planning?

- Capital Plans are defined as:
 - Short- and Long-Term Financial Planning which identifies and organizes investment needs over time
- Short- and Long-Term Planning identifies:
 - The need for replacing machinery, equipment, or special programs. (i.e. major marketing campaigns or research and development)

What is Capital Planning

- Capital Planning is also known as:
 - Investment Appraisal
 - Capital Budgeting
 - Life Cycle Budgeting
 - Capital Improvement Program (CIP)

Why Do We Need a Capital Plan?

- Provides a process driven evaluation program to evaluate capital spending
- Assists in reducing the capital spending surprises during the fiscal accounting year
- A method to identify major asset and equipment purchases well in advance of “end of life events” ...again no capital related surprises

What's Included in a Capital Planning Program

- List of all capital projects, equipment, or major programs to be purchased
 - Sorted by area
 - Campus
 - Building
 - Department
 - Floor

What's Included in a Capital Planning Program

- A ranking or priority component
 - Criticality of asset
 - Effect on business plan
 - Life safety equipment
 - Customer satisfaction
 - Employee morale and satisfaction
 - Risk remediation

What's Included in a Capital Planning Program

- Justification for the projected expenditures
 - Compliance issues
 - Return on investment (ROI)
 - New business initiatives
 - 'End of life' replacements
 - Work place environment
 - Technology improvements

What's Included in a Capital Planning Program

- Financing plans, if needed
 - How will expenditure be paid for?
 - Complete financing plans
 - Length and cost of financing
- Critical path or time table for completion
 - Complete timeline from bidding and cost estimates to final completion and start-up

What are the Specific Steps Needed to Develop a Capital Plan?

- Develop a complete inventory of all capital assets and equipment
 - Buildings
 - Systems
 - Vehicles
 - Utilities
 - Mechanical equipment, etc.

What are the Specific Steps Needed to Develop a Capital Plan?

- Develop a complete inventory of all capital assets and equipment
 - Computerized Maintenance Management System (CMMS) is excellent tool
 - If currently not in place, developing this will assist with your work order management at same time
 - CMMS will also retain your asset life history of problems and the total life cycle costs

What are the Specific Steps Needed to Develop a Capital Plan?

- Estimate 'End of Life' date of equipment
 - Use historical data
 - Contractor or vendor assistance
 - Don't worry about being too accurate
 - The process will sort out the details in time
 - 'End of Life' estimated date should automatically transfer to your long-range capital plan

What are the Specific Steps Needed to Develop a Capital Plan? (cont'd)

- Consider completing Asset Risk Assessments on all critical equipment
 - This process will assist in identifying assets which when replaced will reduce business risk
 - Failure Mode and Effect Analysis (FMEA) is a good process

What are the Specific Steps Needed to Develop a Capital Plan? (cont'd)

- Develop the estimated replacement value of all critical equipment
 - Use historical data if available
 - Use contractors or vendors
 - Long-range replacements will have lower quality replacement estimates
 - Accurate estimates will sort themselves out in time

What are the Specific Steps Needed to Develop a Capital Plan? (cont'd)

- Establish the priority of each piece of capital equipment
 - Keep it simple stupid (KISS Principle)
 - Use the basic A-B-C priority process
 - If your CMMS is up to speed and working well use the imbedded priority used for assets

What are the Specific Steps Needed to Develop a Capital Plan? (cont'd)

- Create an approval process for management and or share holders
 - Approvals (aka.signatures)
 - Management
 - Engineering manager
 - Maintenance manager
 - Human resources – as appropriate
 - Safety manager
 - Finance manager

Managing Your Approve Capital Plan

- Project Plan for each
 - Gantt chart and completion schedule for each item
 - Master capital project plan with all projects listed
 - Month by month plan
 - Estimated expenditure outlay by month
 - Completion dates monitored and updated each month

Managing Your Approve Capital Plan

- Project Plan for each
 - Hold monthly capital planning meetings
 - to ensure funds are spent on time and on budget
 - Remember your capital plan is a major component of you annual financial plan

2016 Capital Forecast Report March 20, 2016

ITEM DESCRIPTION	Priority			
	A	B	C	
<u>OUTSIDE</u>				
1 Pave parking lot South			x	\$45,000
2 Handicapped ramp from parking lot		x		\$10,000
3 Replace all stair and ramp hand rails	x			\$8,000
4 Re-turf all property grass areas			x	\$15,000
5 Replace all outside doors	x			<u>\$25,000</u>
Total				\$103,000
<u>BOARD ROOM</u>				
1 Remodel Board Room			x	<u>\$65,000</u>
Total				\$65,000
<u>BUILDING SPACES</u>				
1 Re-carpet 2 nd floor		x		\$25,000
2 Replace 3 rd floor air handling unit		x		\$18,000
4 Purchase new employee cubicles for 4 th floor		x		\$8,000
7 Refurbish 1 st floor break area		x		\$6,500
8 Replace hot water boiler in utility room	x			\$6,700
9 Replace loading dock door and leveler	x			<u>\$4,800</u>
Total				\$69,000

5 Year Capital Forecast Report March 20, 2016

ITEM DESCRIPTION	2017	2018	2019	2020	2021
<u>OUTSIDE</u>					
1 Pave parking lot South					\$45,000
2 Handicapped ramp from parking lot		\$10,000			
3 Replace all stair and ramp hand rails	\$8,000				
4 Re-turf all property grass areas					\$15,000
5 Replace all outside doors	<u>\$25,000</u>				
Total	\$25,000	\$10,000			\$15,000
<u>BOARD ROOM</u>					
1 Remodel Board Room					<u>\$65,000</u>
Total					\$65,000
<u>BUILDING SPACES</u>					
1 Re-carpet 2 nd floor		\$25,000			
2 Replace 3 rd floor air handling unit			\$18,000		
4 Purchase new employee cubicles for 4 th floor	\$8,000				
7 Refurbish 1 st floor break area				\$6,500	
8 Replace hot water boiler in utility room					\$6,700
9 Replace loading dock door and leveler			<u>\$4,800</u>		
Total	<u>\$8,000</u>	<u>\$25,000</u>	<u>\$22,800</u>	<u>\$6,500</u>	<u>\$6,700</u>
Grand Total	\$33,000	\$35,000	\$22,800	\$6,500	\$86,700

Additional Forecasting Tools

- Maintenance and Major Repair
 - Normally an expense forecast
 - Use the same process as your capital planning process
 - Typically consists of more line items and lower cost expenditures

Final Thoughts

- Identify and name all of your assets and equipment
- Maintain your work order and asset history
 - Great source of information and history
- Maintain a long range capital “wish” list
- Manage your capital replacement program with discipline and accountability

QUESTIONS

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