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## **FROM FACILITY MANAGEMENT TO INVESTMENT MANAGER**

**By James R. Watson, (Director of Federal Programs), NexDSS**



Chief Financial Officers (CFOs) are coming to grips with the fact that they have the ultimate responsibility for financial information provided to investors, creditors and auditors. Public pressure and congressional oversight have dramatically changed the way pension funding and stock options are reported, and even the process of reporting sales.

The next area in which CFOs may very well be held accountable is in the reporting or more precisely the non-reporting of the backlog of needed repairs and maintenance on the facility assets.

Corporations and government agencies typically have facility assets that represent 20 to 40 percent of their net worth and the requirement for maintenance and repair is not well communicated to the financial side of the house. The ever increasing pressure to improve profitability and impact the short term financial metric, causes management to turn to the easy and time tested solution.... issue budget reduction edicts.

Facility departments have always been prime targets for these budget cuts. Facility managers are reacting by embracing new technologies to convert the facility department into an asset management role. Firms are hired to provide a 'condition assessment' of the facility asset. Formulas are developed to communicate the need for funding. Ratios depicting the repair backlog as a percent of replacement value are presented as a measurement of need. Data is presented in pie charts, bar charts, and color-coded maps.

This evolution from facility management to facility asset management is a step in the right direction. However it is not producing the desired results. Facility budgets are still under-funded. More and more facility departments are being out-sourced. CFOs continue to view facility departments as cost centers.

There is no recognized penalty to profit center managers when they elect to defer repairs to a building system. The penalty is accelerated need for capital dollars to replace the neglected system. Those dollars typically come from corporate funds - - not from operating funds. In fact, profit center managers actually benefit -- repairs are typically expensed against the bottom line, so deferring facility maintenance and repair improves the recorded bottom line. And they get a new capitalized low maintenance asset in the bargain.

Likewise, corporate executives become heroes when they defer capital funds necessary to replace the worn out building systems. The penalty cost of this deferring of capital is accelerated need for temporary repairs to keep the system functioning. These dollars, even though not captured, are charged to the profit center not corporate.

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The focus needs to shift from subjective assessments of conditions and formulas to an assessment of investment opportunities. CFOs are quick to fund a project that will improve their earnings ratios, if they are convinced the returns are real. This requires that facility managers present a business case -- not a budget request.

The business case must spell out the investment and the return as well as a performance measure that is easily auditable. Recent breakthroughs in facility information technology provide the tools to objectively quantify current depletion of building and infrastructure value. Real time modeling of the impact of various expense dollar investment options permits the objective determination of the optimal capital investment. This process also enables data on the loss of shareholder value that occurs when expense dollars (repairs) are constrained or when needed replacement (capital dollars) is constrained. The CFO is empowered to provide stewardship of the monies invested in the built environment

And the bottom line? The facility department will be viewed as a conduit for strategic investments, not as an outsourcing target.

**EDITOR'S NOTE: James R. Watson is Director of Federal Programs for NexDSS, a MACTEC company. The firm's flagship product, *Vertex*, is an integrated suite of software modules that helps facility owners and managers document facility assets, evaluate current facility conditions, forecast asset deterioration and develop budgets for building systems life-cycle costs. Contact Mr. Watson at (734) 453-9463, [jrwatson@mactec.com](mailto:jrwatson@mactec.com). Also log on to [www.nexdss.com](http://www.nexdss.com) for additional information.**