

Sell Your Projects with CFO Jargon for the Public Sector FM
Phyllis J. Meng, CFM, SFP, IFMA Fellow
mengp@metro.net

Do you have difficulty justifying your projects with the CEO? Is the CFO always shooting down your capital projects? Are they constantly questioning your expenses and reducing your budget? Do you know how your daily activities impact your agency's bottom line?

The objectives of this paper are:

- Understand and become familiar with basic finance terminology
- Learn how to develop meaningful facility related ratios to measure performance
- Know how to justify your projects using CFO speak
- Understand how facility management impacts the agency's finances

Both public and private sector facility professionals (FM) speak facilities jargon. We get so wrapped up in our world of responsibilities we relate everything to facilities and the jargon that is used to accomplish our tasks. For example: You wanted to install (VAV) variable speed drives on the (BMS) building's building management system to increase the (CFM) air flow, you would probably present it to your Financial Officer by stating you wanted to install a VAV system on the BMS system to increase the CFMs. After those acronyms, the Financial Officer's eyes would glaze over.

How CFO Thinks

Financial officers are traditionally accountants or bean counters, who speak financial language. They speak the language of money. Their jargon relates to money and financial transactions. They will question you with: What is the ROI? What is the NPV? What is the Payback? Would you be able to answer their questions or know what is being requested?

Basic Accounting Information

The basis of everything financial is a business transaction that is the economic exchange between a business, people, and other businesses. The business transactions are recorded into accounts (bucket that holds similar transactions). Each account is grouped by a general classification:

- Assets – Physical thing that has a money value (what the agency owns)
- Liabilities – Debts owed to outsiders (what the agency owes)
- Capital – Owner's equity
- Revenue – Increase in capital due to business transactions
- Expenses – Costs to produce revenue or provide services

Financial Statements

At the end of the accounting period, all accounts are total and grouped together into the agency's financial statements which are:

Income Statement – Summary of revenue & expense for a specific period of time

Balance Sheet – A list of assets, liabilities, & capital as of a specific date

Cash Flow statement – Summary of cash inflows and outflows for the period just ended

Fixed Assets/Depreciation

Fixed assets are described as an asset that has a useful life of over one year. These include buildings, furniture, and equipment. Most of the assets we are responsible for are considered fixed assets. Fixed assets on the balance sheet reflect the original cost plus all of the expenses to bring that assets to be usable. During the usable life of an asset, it is consumed or used up. To reflect this use, a certain predetermined amount is deducted from the asset. This deduction is called depreciation.

Ratios

Ratios can be utilized to justify the project that you are trying to get approved. Financial officers and their staff understand financial ratios because they are dealing with activities in monetary terms. There are several different types of ratios utilized to determine the financial health of a firm or governmental agency. Since we do not have access to the agency's financial statements we need to develop ratios based on facility information that we already have available.

Facility Ratios

As a facilities professional, we all shy away from numbers. We leave the numbers game to the CFO. Did you know that you can develop meaningful company ratios based on facilities information that you have at hand?

All facilities professionals have information at hand that can be utilized to develop meaningful facilities ratios. These ratios can be used to justify your projects and benchmark against others. By converting this information into ratios, senior management can comprehend how efficient we are. Information that you have that can be developed into ratios are:

Total square feet of your building

Number of occupants

Number of custodians to clean the building

Number of building engineers

Number of building management staff

Utility costs

Total facilities budget

Some easy ratios that come to mind right away are:

- Rentable square foot per person – That is where you take total rentable square feet divided by total occupants.
- Usable square foot per person – total usable square feet divided by total occupants
- Amount of area for each custodian to clean – total square feet divided by number of custodians
- Cost per occupant – total occupancy divided by utility costs
- Square foot utility costs – total utility cost divided by total square feet
- Repair costs per square foot - Total repair costs divided by square feet
- Service efficiency – total demand maintenance work orders divided by number of occupants
- Total facilities budget divided by the number of facilities staff
- Budget variance divided by the total facilities budget
- Percentage of company budget - Facilities budget divided by total company budget
- Total utility costs divided by square feet
- Tons of paper recycled per occupant – number of tons recycled divided by total occupants
- Percentage of items recycled – total tons of paper recycled, cans recycled, bottles recycled, light bulbs, and cardboard recycled divided by total tons recycled (each item divided by the total)
- Custodial cost per square foot - Custodial costs divided by square feet
- Custodial cost per occupant - Custodial costs divided by total occupants
- Grounds ratio – Cost of maintaining grounds divided by number of acres
- Maintenance cost per square foot – Maintenance costs divided by square foot
- Maintenance costs per occupant – Maintenance costs divided by total occupants
- Maintenance staffing per square foot – Number of maintenance staff divided by square foot
- Maintenance staffing per occupant – Number of maintenance staff divided by total occupants
- Number of staff/Number of injuries
- Workers compensation claim costs/Number of staff
- Cost of hazardous waste removal/Number of incidents

These numbers along with the results of benchmarking can be developed into information that you can present to your senior management to indicate how efficient you and your department are. Remember the CFO is always looking at ways to save money. You can use this as an argument for how you contributed to the agency's bottom line by avoiding costs. Remember the CFO is always looking at ways to save

money. Also quite important is that with some of these ratios you can show how your support the agency mission.

Budgeting

A budget is nothing more than assigning potential costs to various proposed projects or translating projects into costs. They are built around anticipated expenses, which are both known and unknown. Costs and budgets are broken down into 1) operating, which are the day to day costs of running the facility and 2) capital, which are costs that are large and the project will take more than one accounting period to complete. All potential costs are included in one or the other of these budgets.

We not only need to budget for the short term, approximately a year (operating budget), we also need to develop long term or capital budgets. These are for replacements of the buildings or equipment or for construction of another fixed asset.

Operating Budgeting

Budgeting is taking the facilities tactical plan that was developed from the agency strategic plan, determine what can be completed within in the accounting period and putting costs to the various projects identified. The budget translates plans and projects into costs and responsibilities. The budget is built around anticipated expenses to complete the projects indicated on the tactical facility plan. Thus the budget is integrated into the organization's business plan. The budget must support the agency strategic plan. Lastly, the budget consists of estimated costs that are known and unknown. It is important to include all items in the budget even though the costs might not be clearly identified.

There are several steps to constructing an operating budget; 1) determine the projects that your department will complete during the next accounting period, 2) determine the cost (all costs) associated with that project; and 3) justify the project and cost.

There are various different types of costs involved in constructing a budget. In constructing you public sector budget you might utilize some of all of the follow costs:

- Variable – Increase or decrease directly and proportionately with changes with volume
- Fixed – Do not vary
- Mixed – Semi-variable costs
- Unit – Relate resources consumed to outputs or outcomes provided by those resources in the form of a ratio

The end of the year review might include the above plus the following:

- Have we met our objectives?
- Did we overspend or under spend?

Capital budgeting

Capital budgets are defined as budgets for projects that will take over one accounting period to complete, usually longer than one fiscal year. There are several types of capital budgets, which are:

- Expansion
- Asset replacement
- Asset renewal
- Asset Acquisition
- Cost Reduction
- New Service
- Compliance

There are several factors to consider when developing a Capital budget. All of the follow must be considered:

- Initial cost
- Cost of capital
- Life expectancy
- Time related project elements
- Future costs
- Risks associated
- Economic environment

There are several Capital Budget Quantifiable Methods available for you to use and it is possible for each to provide a different measurement to support or not support your hypothesis.

Cost Benefit Analysis

Cost benefit analysis refers to a process that helps appraise the case for a large project. It weighs the total expected costs against the total expected benefits of one or more actions to choose the best or most profitable options. The analysis finds, quantifies, and adds all the positive factors, these are benefits. Then it identifies, quantifies, and subtracts all the negatives, the costs. The difference between the two indicates if the proposed project is advisable. All costs and benefits need to be included and quantified to ensure that the cost benefit analysis is as accurate as possible. Cost benefit analysis attempts to put all relevant costs and benefits on a common temporal footing.

- Finds, quantifies and adds all the positive factors of pursuing the project
 - Benefits
- Finds, quantifies and subtracts all of the negatives
 - Costs
- Difference indicates whether the planned action is advisable

- Include all costs & benefits & properly quantify

Life Cycle Costing

Life cycle costing is a methodology for calculating the whole cost of a system from inception to disposal (cradle to grave). Most facility professionals that perform these analyses on an ongoing basis utilize specialized software. This type of analysis includes all of the following elements:

Definition

- Economic method for assessing total cost of facility ownership
- Involves translating all expenses associated with building ownership over a prescribe 'life cycle'
- All costs arising from owning, operating, maintaining, and ultimately disposing of a facility
- Cradle to grave

Return on Investment

ROI is a measure of cash generated by or lost due to an investment. It measures the cash flow or income stream from the investment relative to the amount of invested. Return on investment is derived as the "return" incremental gain from an action divided by the cost of that action. $ROI = \frac{\text{gains} - \text{investment costs}}{\text{investment costs}}$

Payback period

Time it takes to recoup the project costs from the savings obtained from the capital project. $\text{Cost of project} / \text{annual cash inflow} = \text{payback period}$

Lease vs. Buy

There are several factors to the Lease vs Buy analysis. They are:

- Lessor costs of capital vs. user costs of capital
- Residual value benefits that accrue to the owner
- Obsolescence costs
- Increased credit opportunities from leasing
- Operational expense vs. capital expense

One reason to lease is to budget and spend the money out of the operating budget rather than the capital budget. In some agencies, getting capital budget approval can be very difficult. Leasing is sometimes a good alternative. Another reason to lease is that long term debt is not tied up in paying for a piece of equipment or building. Companies that are strapped for cash will usually opt to lease equipment rather than

entering into additional debt. Additional debt might lower their bond rating and their ability to borrow money.

Net Present Value (NPV)

The NPV takes future benefits & costs, which are then converted into present values. This analysis considers the time value of money. The purpose of this analysis is to find the present value of the project in “today’s dollars” of the future net cash flow of a project. The NPV takes into consideration “discount rate”.

When requesting capital projects, it is imperative that you utilize one or more of the capital budgeting techniques mentioned above.

Conclusion

You need to know how much it costs to operate and maintain your facilities. It is up to you to let the CFO know how much it costs to maintain the high expense facility. It is not good enough to request funding for upgrading or repairing equipment included in your central plant, you need to in money terms indicate how much it will cost if you do the repairs and how much it will cost the agency if the repairs are not completed. It is important to indicate that the costs optimize the facility’s value and will extend the life of the facility.

Do you know how efficient your facilities staff are? By utilizing ratios and benchmarking you can find out very quickly. This information is great to share with the CFO. It will show where you are deficient or where you are better than average. These really help to justify additional resources for your operations and maintenance.

My recommendation to you is to become fiscally responsible. Know how much your department costs and how efficient you are by benchmarking.

I would suggest utilizing ratios for benchmarking and providing information to the CFO along with assisting to justify your budget. You must track both your operating and capital budgets to ensure that you are safe guarding the tax payers money.