Capital Planning 101
What and Why We Need it!

Presented by
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President, CE Maintenance Solutions, LCC
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 shareholders
  - 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

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# 5 Year Capital Forecast Report

**March 20, 2016**

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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 you 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
Booth 2037

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