

**From Return on Investment
to Risk of Inaction:**

The Facilities Planning Paradigm Shift



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Paradigm Shift

It has long been considered prudent to put every construction project under a microscope, to examine and scrutinize every request for Return On Investment (ROI). No renovation, new build or technology upgrade is given the go-ahead without evidence of sufficient ROI. Even routine maintenance work is expected to deliver an outcome that justifies the cost.

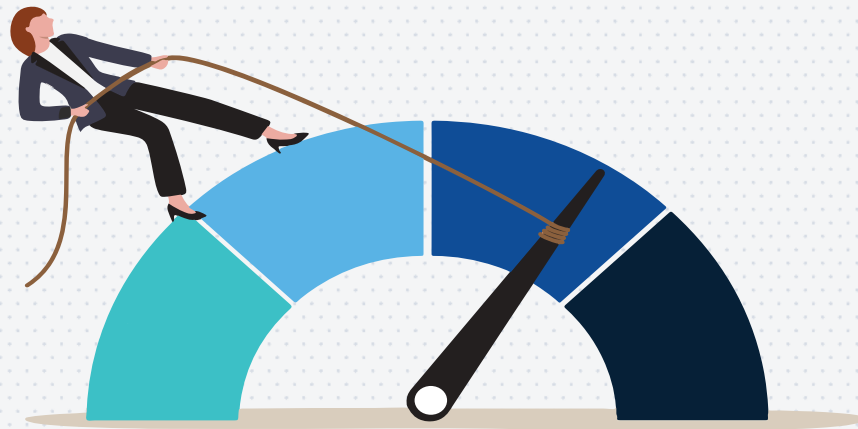
There's a frugal wisdom to this line of thinking, particularly in an environment where human and financial resources are wrung a little drier every year. No organization has money to throw away. No staff has time to waste. All this to say nothing of the human tendency to avoid pain in the present even if it impedes a future payoff.

We have stretched this logic as far as it can go, and now we find ourselves at a crossroads.

After decades of obsessive allegiance to return on investment, facilities across North America are underfunded, underperforming and at risk of failure. The time has come for a major paradigm shift, for a new approach to decision-making and project funding. The status quo will no longer do, and an era of transformational change is upon us.

It's time to set aside return on investment and focus on a new ROI: Risk of Inaction. This eBook defines facilities risk, explores the factors aggravating risk and strategies for alleviating risk while supporting your long-term goals.

The Facilities Risk Profile



For our purposes, we'll define facilities risk as the likelihood of a major failure where a physical asset is so depleted it is rendered dysfunctional or, in extreme cases, endangers the people who use it. However, risk isn't properly represented by any one characteristic alone. Rather, risk is a totality of characteristics that influence each other. These are common components of a facilities risk profile.

Track Record of Health and Safety Concerns

Often, past performance is the best indicator of future performance. Drivers with a history of speeding violations present a greater risk of subsequent violations and are, thus, more expensive to insure. A similar concept is at play in the built environment. Facilities with a history of accidents and injuries, where overcrowding is common and/or security is lax, are similarly high-risk.

Substandard Upkeep

While a facility is built at a fixed point in time, a robust maintenance program can keep it performing like new. However, if an organization has not invested properly in routine maintenance and upkeep, age is a greater determinant of risk.

Insufficient Resilience and Preparedness

Hurricanes, wildfires, tornadoes and other weather catastrophes are becoming more common and more costly. According to the National Oceanic and Atmospheric Administration (NOAA), billion-dollar climate disasters have ballooned from three per year to 13 per year since 1980. Many organizations have not fortified their facilities against the increasing likelihood of a devastating weather event, adding to facilities risk.

The Facilities Risk Profile (Cont'd)

The average school building is **49 years old**

Age

Older facilities are at a greater risk for system failure than new ones because they often have deeper deferred maintenance backlogs and, ergo, are in worse condition. That's just common sense, and it's troubling for industries where older buildings are the norm, like American public schools where the average building age is 49 years, according to a survey from the National Center for Education Statistics. The same goes for the Department of Interior, which has a median building age of 58, per the U.S. Government Accountability Office.

Changing Regulations

Not all risk factors come from within. Failure to conform to changing laws and building codes also exacerbates risk. In fact, according to a survey by Gordian and Forrester, 52% of state and local government leaders report being subject to fines, penalties and other adverse consequences as a result of regulatory non-compliance.



Factors Heightening Facilities Risk



The facilities risk profile is challenging to manage in the best of times. And these times are far from the best. Organizations face major headwinds when it comes to lowering risks. Here are a few common hurdles they have to overcome.

Decreasing Budgets and Rising Inflation

Financial pressures are the germ of everything this eBook is about. The mandate to do more with less created an environment where leaders were reticent to fund projects for fear of them not paying off. As work went undone, facilities needs grew and the costs of addressing them grew as well. Sticker shock only fed the apprehension and inability to fund projects, and the proverbial snake continued swallowing its tail. Add crippling inflation into the mix and you have untenable circumstances. Organizations have less money than they've had in years, and the money they do have to spend doesn't go as far as it used to. Meanwhile, facility conditions degrade by the minute.

Staffing Concerns

As budgets have tightened, organizations have had to reduce facilities staff and ask the remaining employees to cover more ground. Maintenance trades people at colleges and universities, for instance, have experienced a coverage area increase of nearly 25% since 2007, according to the 2024 State of Facilities in Higher Education. This escalation is emblematic of conditions across industries. Organizations can't afford to properly staff their facilities teams in many cases, and when they can, they often can't find enough employees to fill their open positions or can't find people with the right skills. This talent deficiency only adds to risk.

Factors Heightening Facilities Risk (Cont'd)

Governments and
school districts have
not adapted to
population changes

Dated and Disparate Data

It's not the absence of facility condition data that heightens the risk of inaction; it's the accuracy and location of facility condition data that's the problem. While Gordian recommends conducting an assessment every three years to keep data current, most organizations do not and therefore cannot account for changes to facility conditions, for better or for worse. Clinging to unreliable datasets increases the chances a new vulnerability is going unattended. To make matters worse, this data often exists in different versions and in different places, such as various iterations of the same spreadsheet saved locally on any number of devices. With assessment info out of date and living in disparate places, informed decision making is impossible.

Changing User Needs

As populations shift, community needs and expectations change. Therein lies a problem, as facilities built decades ago aren't necessarily equipped for today's users. Again, we see the consequences of the injunction to do more with less, to serve an expanding user base with fewer and fewer resources. Illustrating that point, 54% of K-12 leaders and 34% of government facilities leaders told Gordian and Forrester they have not sufficiently adapted to the changing size of their local population.

Inconsistent Direction and Decision-Making

The executives and other leaders making demands of the facilities department don't always understand the full implications of what they're asking. Prioritizing one initiative means de-prioritizing another, and there are tangible consequences when the organization's vision changes and the goal posts move. There are only so many resources to go around and redistributing them is a significant adjustment. Making matters worse is the fact that many organizations do not have a tried-and-true, consistent framework for making investment decisions. Every strategic change brings them back to square one and building the decision-making apparatus in real time.

But just as facilities risks can be heightened through inaction, they can also be lowered through consistent, strategic efforts.

Step 1

Three Steps for Lowering Facilities Risk

Conduct a Gap Analysis

The first step to reducing risk is to identify the current and ideal states of the facilities portfolio. Pinpointing how to get from one state to the other will help guide investment decisions.

There's just one issue: The facilities department is often excluded from discussions of mission statements and ideal states. Thus, it is incumbent upon organizational leadership to bring facilities managers into the fold and ensure they understand how the pursuit of strategic priorities and objectives translates to the built environment.





Step 2

Three Steps for Lowering Facilities Risk

Gather Facilities Data

Now that the distance between the current and ideal state has been defined, it's time to identify the work that goes into closing that gap. It's incorrect to assume that new construction will carry the day. Renovations, tech upgrades and system replacements are often just as effective.

Facilities data should be as recent as possible, which may require conducting facility condition assessments from scratch, updating portions of existing assessment data or, most likely, both. No single approach to collecting assessment data is appropriate across the entire portfolio, which is why Gordian offers tiers of assessments that organizations can apply as their needs dictate:

Facility Condition Assessment + (FCA+)

Our most comprehensive assessment service provides an on-site system-level inventory with detailed reviews conducted by facilities experts. This assessment pinpoints every specific required action across the facilities inventory, going beyond typical renewal needs to identify additional requirements such as code compliance, modernization upgrades, and life and safety needs.

Akin to an engineer-led FCA, Gordian's FCA+ provides project-level detail for facility and financial leaders needing to effectively plan and execute their upcoming work.



Step 2 Cont'd

Three Steps for Lowering Facilities Risk

Facility Condition Assessment (FCA)

This assessment provides the necessary data to create a comprehensive understanding of facilities needs and conditions. Asset-level details are collected on-site by Gordian's team and delivered to decision-makers, enabling them to make savvy investment decisions.

Gordian's FCA also provides organizations with boots-on-the-ground validation of major systems, ensuring the highest degree of accuracy and expertise. With verified, third-party data in hand, leaders can allocate funds to their most urgent needs.

Modeled Assessment

Leaders looking to make fast, high-level funding decisions about a facilities portfolio containing many similar buildings may opt for our Modeled Assessment. Eliminating the time required for a full on-site inspection, this software-based modeling service extrapolates the conditions and needs of one building across similar buildings to quickly determine high-level funding requirements.

Self-Assessment on Gordian Cloud Platform

Organizations possessing a long track record of capital planning success may choose our software-only offering. With this solution, in-house staff capture asset data as they walk a facility and seamlessly synchronize that information with enterprise data centrally located in a secure cloud environment.

Facilities Metrics to Prioritize

Facilities data should not exist for its own sake; it should demonstrate the risk of inaction and prioritize projects strategically. Chances are, the volume of need uncovered in an assessment will be staggering, so enormous it halts productive discussions and paralyzes decision-making. Exactly the opposite of what organizations need to achieve.

It's possible to eliminate outliers, spur meaningful conversation and keep facilities risk at the forefront by focusing on a few key metrics.

Step 2 Cont'd

Three Steps for Lowering Facilities Risk

Net Asset Value (NAV)

When it comes to facility management, Net Asset Value is the measurement of the “percent good” of a facility, group of facilities or an entire facilities portfolio. **Thus, the higher the NAV, the lower the risk.**

Calculating NAV is simple: Subtract current capital needs from the total replacement value, then divide that number by the total replacement value. Again, the higher the NAV, the better.

NAV =

Replacement Value - Capital Needs

Replacement Value

90%
NAV =

\$100,000

\$100,000,000

Step 2 Cont'd

Three Steps for Lowering Facilities Risk

Facility Condition Index (FCI)

The FCI is one of the most useful – and most recognized – facilities metrics. At its core, FCI is the “percent bad” of a single facility, a group of facilities or even an entire facilities portfolio. Organizations generate this snapshot with a simple equation: The cost of completing all required projects divided by the cost of replacing the entire facility exactly as it is. Here’s how the math works.

Note that the higher the FCI, the higher the risk. The relationship between the two is in perfect contrast to the relationship between facilities risk and NAV in that the lower the FCI, the lower the risk.

Either of these metrics will tell a compelling story, but they aren’t the only data points to consider. Energy assessments like the ASHRAE Level 1 underscore consumption patterns and identify areas where energy efficiency can be improved. Green Building Assessments go beyond energy efficiency to provide holistic recommendations for making an asset more environmentally friendly. Finally, comparing any of these metrics against one’s peers in a benchmarking study can objectively identify one’s market position.

While important, data collection is not in and of itself an end. To lower facilities risk, data must be put into action.

FCI =

Requirement & Renewal Costs

Current Replacement Value

10%
FCI =

\$100,000

\$100,000,000

Step 3

Three Steps for Lowering Facilities Risk



Synthesize and Contextualize Data

Once an organization has the data necessary to make investment decisions, it's time to hit the gas. Gather stakeholders to scrutinize and synthesize condition data, place it in the context of your gap analysis, your historical performance and the performance of your peers. This is accomplished more easily when all the data is in one central location, like the Gordian Cloud Platform.

A secure, single source of truth for facilities condition data, Gordian Cloud Platform supercharges collaboration by allowing multiple users to see the outcome of various investment approaches before a dollar is spent. With the right data and visibility, organizations can make informed choices and create a built environment that reduces their risk and advances them toward their goals.

Catalysts for Change



The paradigm shift from return on investment to Risk Of Inaction won't happen overnight. Yet embracing the role of catalyst for change and driving continual improvement is well worth the effort. Start with understanding your current risk profile — where you are — and comparing that with where you want to be. Gather the data that will help you get there, then synthesize that data to develop a course of action.

The result will be sustainable transformation and long-term success.



About Gordian

Gordian is the leading provider of Building Intelligence™ Solutions, delivering unrivaled insights, robust technology and comprehensive expertise that fuel customers' success during every phase of the building lifecycle. Gordian created Job Order Contracting (JOC) and the industry standard RSMeans™ Data. We empower organizations to optimize capital investments, improve project performance and minimize long-term operating expenses.