



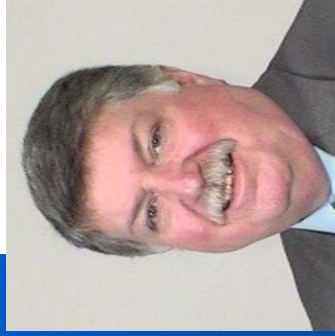
Risk of Inaction

The New Facilities ROI



Speaker Profile

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Director of Market Strategy and Development - Healthcare



Mark has worked at some of the most interesting and complex facilities in the country, including Texas Children's Hospital, MD Anderson Cancer Center, and The University of Arkansas For Medical Sciences where he served as Vice Chancellor of Campus Operations. In his 40 years of operational experience Mark has been an agent of change, developing flood protection strategies, facilities commissioning guidelines, and job order contracting strategies to improve outcomes and reduce risk

Mark has an MBA from the University of Houston with a concentration in Service Marketing and a BS in Civil Engineering – Construction Management. Mark is a certified health facility manager, certified healthcare constructor and Fellow of the American Society of Healthcare Engineering of the AHA, serving as ASHE president in 2013



Today's Discussions

- We are Agents of Change
 - Re-defining ROI
 - Defining NAV
- Facilities observations: A Facility Executive's Perspective
- Explore survey findings across key areas of emphasis:
 - Mission alignment
 - What needs to be done
 - Significant challenges
 - Quality investment confidence
 - Areas of concern
- Risk of Inaction
- Action Planning
- Explore practical strategies and opportunities for change
- Discuss solutions and next steps for engagement

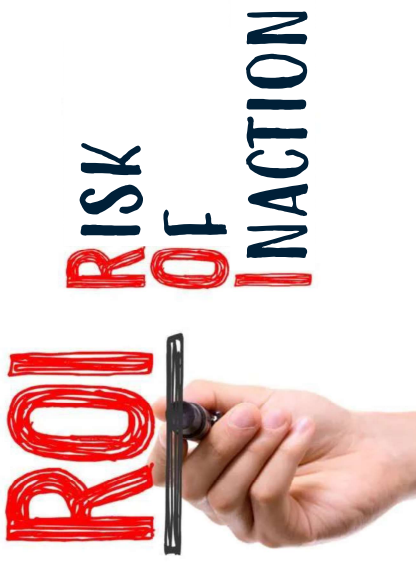


Agents of Change



Re-Defining Facilities ROI

- **Return on Investment:** The Traditional Financial Value-Added discussion – "Juice for the Squeeze"
- But Gordian is prepared to assert that ROI can and should also exemplify **Risk of Inaction** - The Risk to Business Continuity from underinvestment
- Of course, traditional ROI will continue to be a pivotal metric when evaluating the efficiency and value of investments
- This is particularly salient to facilities stewardship as constraints intensify and new vulnerabilities emerge.
- When investment doesn't keep pace with portfolio aging, the result is declining **Net Asset Value (NAV)** and increased risk to Critical Mission Delivery



Net Asset Value (NAV)

Measuring the “percent good” of a building

Portfolio	NAV Range
Capital Upkeep	90% - 100%
Repair & Maintain	70% - 89%
Systemic Renovation	50% - 69%
Transitional	Below 50%

Investment Strategy

Capital Upkeep Stage: Primarily new or recently renovated buildings with sporadic building repair & life cycle needs

Repair & Maintain Stage: Buildings are beginning to show their age and may require more significant investment and renovation on a case-by-case basis

Systemic Renovation Stage: Buildings require more significant repairs; major building components are in jeopardy of complete failure; large-scale capital infusions or renovations are inevitable

Transitional Stage: Major buildings components are in jeopardy of failure. Reliability issues are widespread throughout the building.

$$\text{Net Asset Value} = (\text{Replacement Value} - 10\text{-year Repair Need}) / \text{Replacement Value}$$



Facilities Observations

Criteria For Managing The Data

Case Study: Large Faith Based System Located in the West and Mid-West

Minimum cost threshold for inclusion in FCA's

Legacy Backlog: Capital definition - \$3K

Acquisition Backlog: Timing for Standardization

New Capital definition - \$5K

What happens with new criteria in existing data

Backlog changes?

Priorities change?

FCI changes?

Managing The Data – Lowering Risk

The Risk Dilemma – A Weighted Approach

Leadership Defined

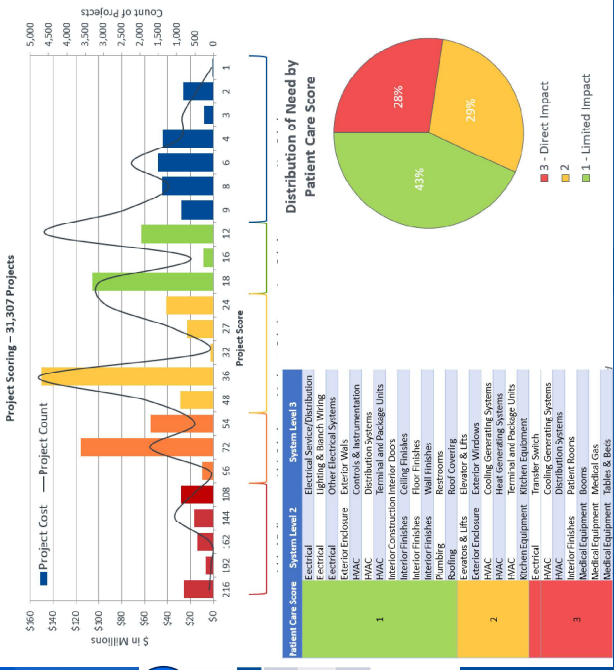
Using Investment Criteria to Define Project Scoring

Timeframe	Score	Asset Preservation	Score	Sustainability & Energy Efficiency	Score	Revenue Risk	Score	Safety & Emergency Systems	Score	Patient Care	Score
Past Due	4	Chronic to functionality	3	Significant impact on consumption/cost/sustainability	3	Failure results in significant revenue loss	3	Emergency systems and egress	3	Directly impacts patient experience	3
1-3 Years	3	Impacts functionality	2	Moderate impact on consumption/cost/sustainability	2	Failure results in moderate revenue loss	2	Critical systems	2	Indirectly impacts patient experience	2
4-7 Years	2	Limited impact on functionality	1	Limited impact on consumption/cost/sustainability	1	Failure results in limited revenue loss	1	Non-critical systems	1	Does not impact patient experience	1

Portfolio Specific Data

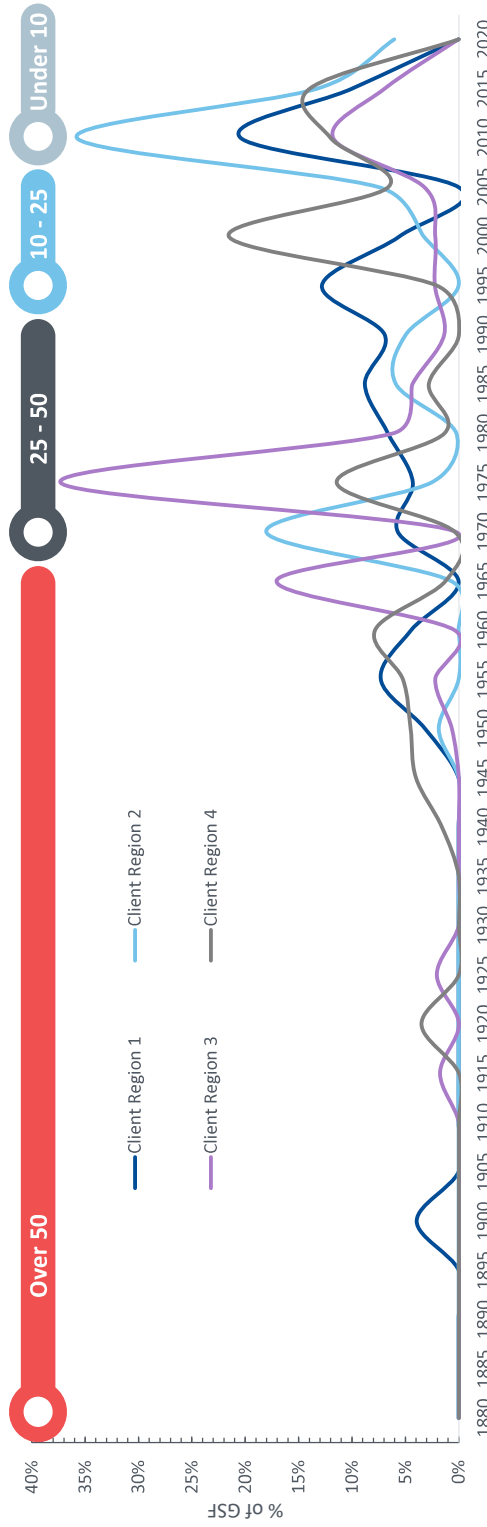
Project Scoring Distribution

Project scoring distributed by urgency, count, and cost



Construction Trends Compounding Investment Need

% of GSF by Construction Year



Buildings Over 50
Life cycles of major building components are past due. Failures are possible. Core modernization cycles are missed.
Highest risk

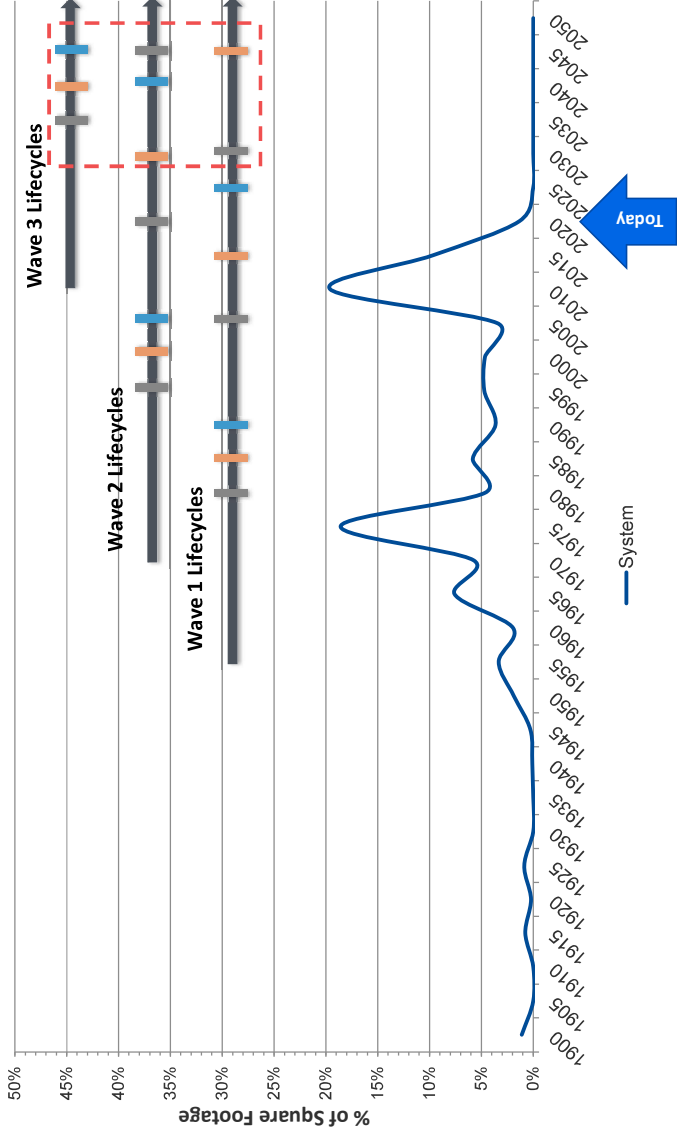
Buildings 25 to 50
Major envelope and mechanical life cycles come due. Functional obsolescence prevalent.
Higher Risk

Buildings 10 to 25
Short life-cycle needs; primarily space renewal.
Medium Risk

Buildings Under 10
Little work. "Honeymoon" period.
Low Risk



Construction Trends Compounding Investment Need

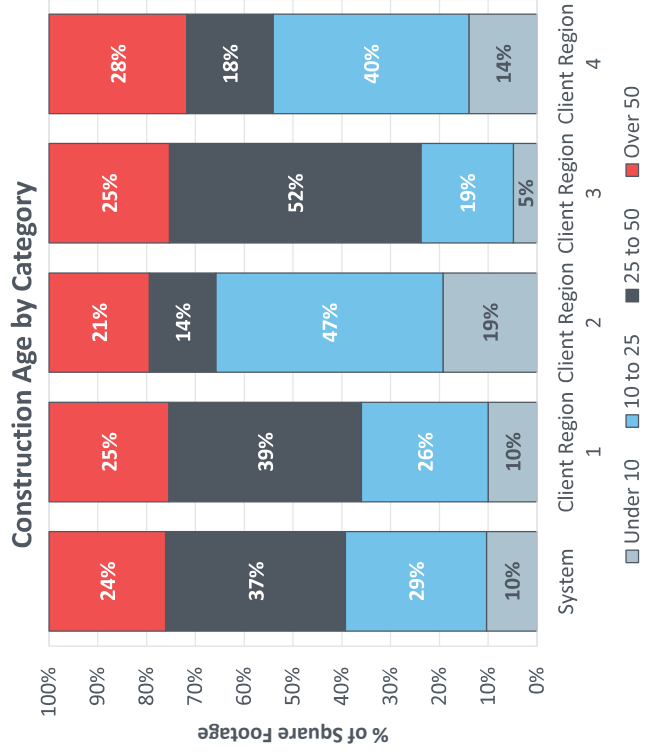


System	Life Cycle
Roofing	25 years
Electrical	25 years
Exteriors	30 years
HVAC	30 years
Plumbing	35 years

Future overlapping life cycles compound need



Age Profiles Intensifying Exposures

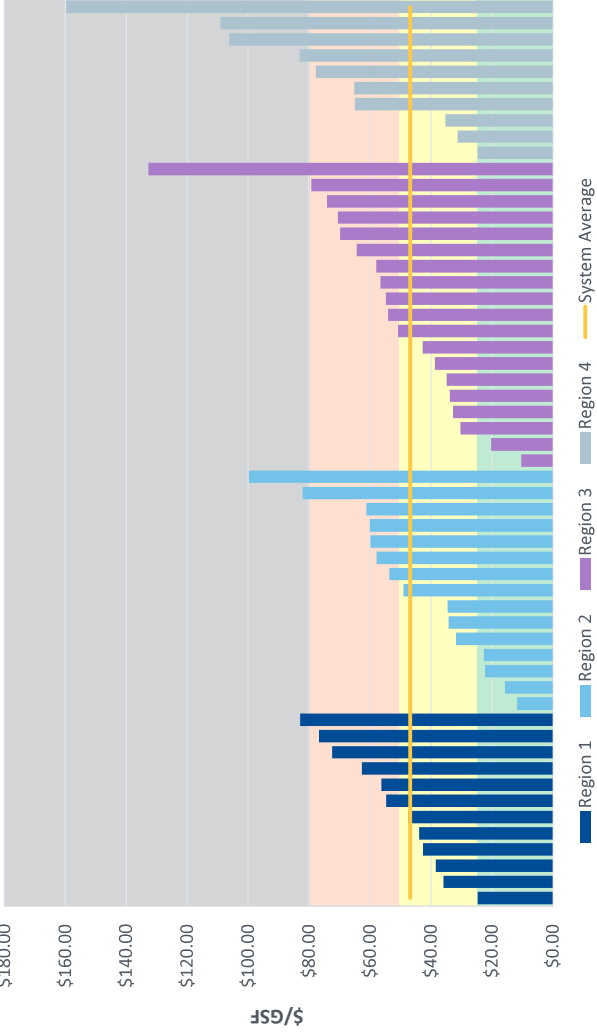


- Buildings Over 50 Years Old**
Life cycles of major building components are past due. Failures are possible. Core modernization cycles are missed.
Highest risk
- Buildings 25 to 50 Years Old**
Major envelope and mechanical life cycles come due. Functional obsolescence prevalent.
Higher Risk
- Buildings 10 to 25 Years Old**
Short life-cycle needs; primarily space renewal.
Medium Risk
- Buildings Under 10 Years Old**
Little work. "Honeymoon" period.
Low Risk



Risk of Inaction: Needs Across Buildings Within Portfolio

System \$/GSF Need, by Hospital



Transitional

Many or all major buildings components/systems are in jeopardy of failure. Reliability issues are widespread throughout the building.

Systemic Repair

Some major buildings components/systems are in jeopardy of failure. Reliability issues are common. Investment is needed at the system level.

Repair/Maintain

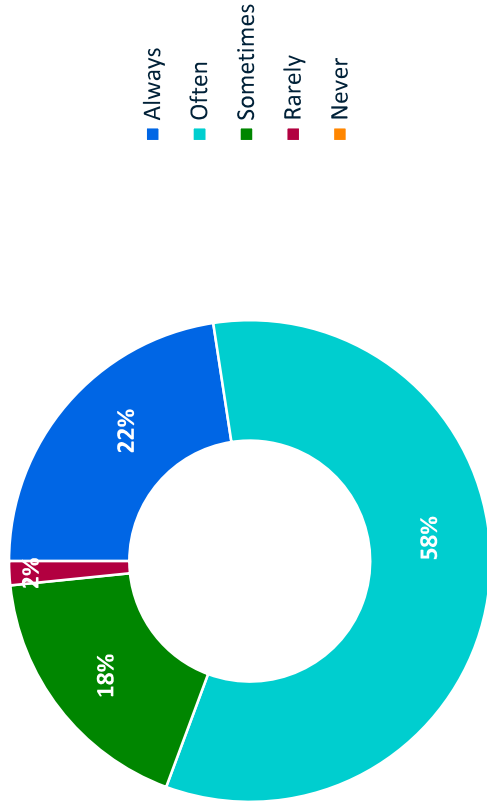
Few major buildings components/systems are in jeopardy of failure. Reliability issues exist. Investment is needed at the component level.

Capital Upkeep

Primarily new or recently renovated buildings with sporadic building repair & life cycle needs.

GORDIAN

How often are you able to connect your day-to-day work with organizational mission and long-term priorities?



GORDIAN

What do you think needs to be done to improve the alignment between your day-to-day work and mission priorities?

Still mired in post-pandemic cultural issues - Need to refocus from operational response to long term priorities.

A crisis.

Better communication with leadership on an ongoing, not emergency, basis.

Multi-year asset repair and replacement plan of legacy facilities and infrastructure

Think in the future, not the now.

A serious disconnect between deferred maintenance requirements and funding and the risks this creates.

Be at the table

Resources to translate from being reactive to proactive.

Critical reinvestment in infrastructure



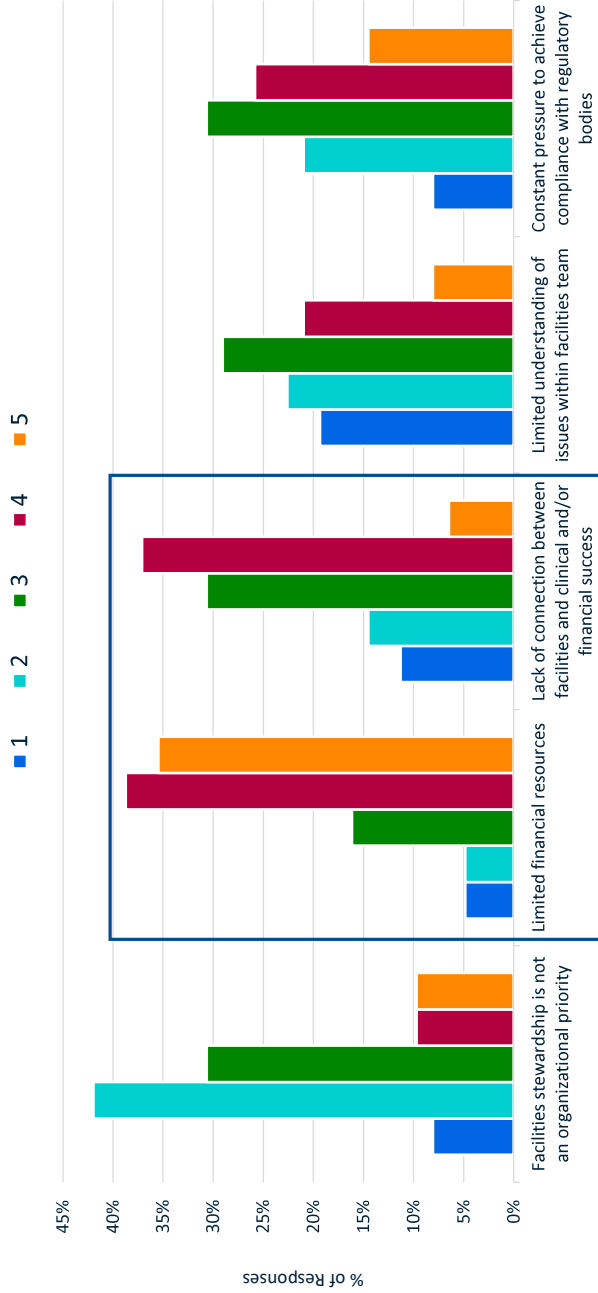
Involving the end user more in the design phases.

Better communication of the mission to all stakeholders and using the mission priorities as a tool to prioritize capital spending.

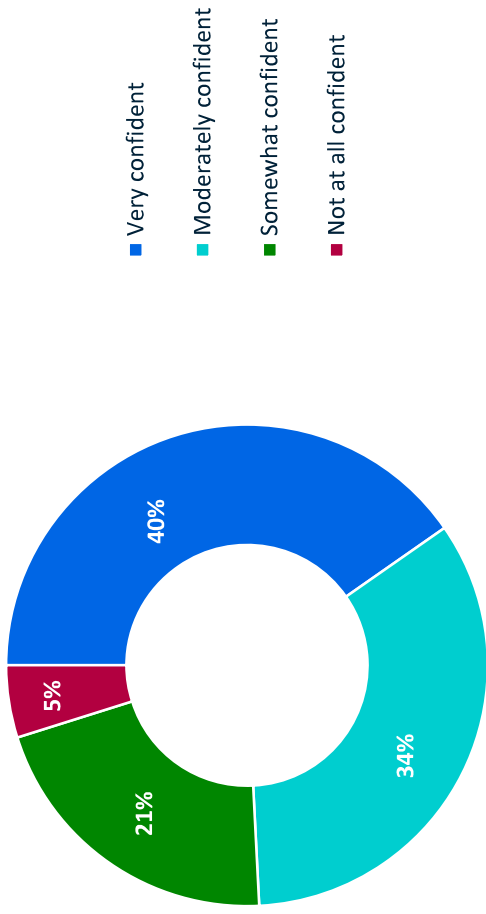


We need leaders that think out of the box

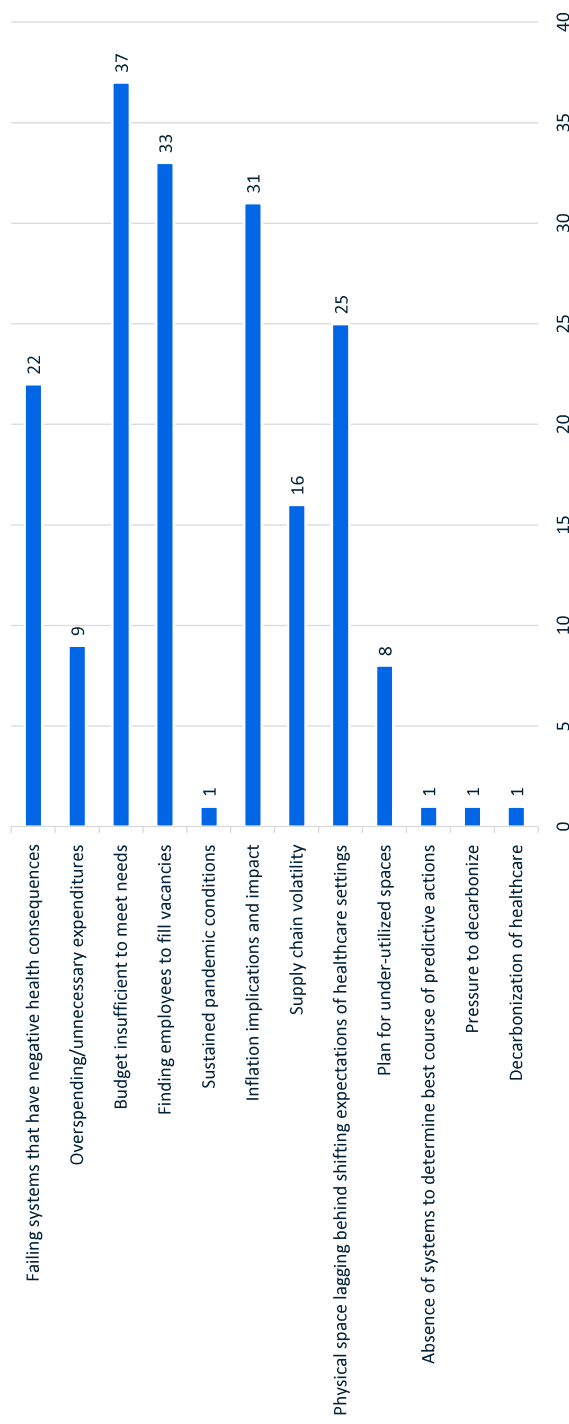
On a scale of 1-5 (1 – Not at all Challenging, 5 – Extremely Challenging), how significant are the following challenges to achieving your critical facilities priorities?



How confident are you in the quality of the investments you're making to steward your facilities in the short and long-term?



From the list below, please identify your top three areas of concern for the future?



Risk of Inaction

Risk of Inaction

Absence of space enrichment to improve patient throughput

Declining Net Asset Value

Operational inefficiencies

The other VE – Value Eradication to the care continuum

Business continuity disruption

Reduced stakeholder satisfaction

Reduced revenue

Action Planning

What plan of action have you put in place to assure your success?

Long-range
capital renewal
plans

FCA
implementation

Integration of
facilities into
master plan

Regular
communication and
optimization reviews
with leadership

Strategic space
committees

Decarbonization

Financial
resiliency plans

Touchpoints
with HR to
address staffing

Facilities Strategies in Action

Alternate Funding Sources for Capital Renewal & Energy Projects

Bond Market Funding

(large cap projects that include deferred maintenance)
(Prioritize Mission Specific Support)

Primary Bank Funding

(smaller loans for capital renewal)

C-Pace – Energy.gov

(Commercial Property Assessed Clean Energy)

Energy as a Service (EaaS)

(Concessions)

(Traditional ESCOs)

Utility Provided/Guaranteed Funding

Rates & Tariffs

Public Private Partnerships (P³)

Inflation Reduction Act (IRAs)



Adaptive, Portfolio-Based Investment Planning



Not all buildings are created equal

Developing a portfolio approach will allow for a focused investment approach based on the System's Strategic Direction.

WHY?

Core considerations to the portfolio approach

- Building Age
- Building Condition
- Building Location
- Strategic focus
- Care Delivery requirements
- Patient needs
- Historical Significance
- Life Safety/Code requirements
- Transitional Space
- Adaptive Reuse

HOW?

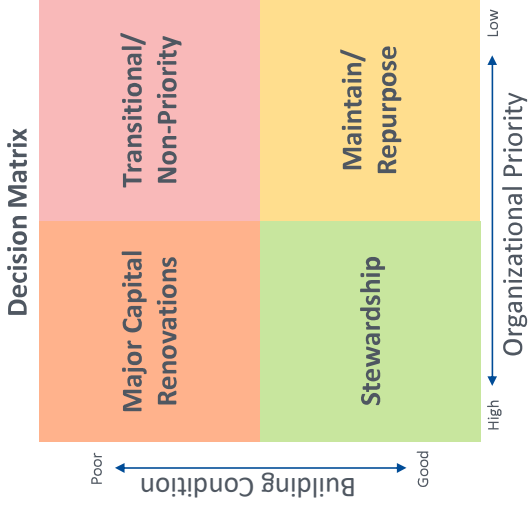
Organizational Leaders for buy in and communication

- Organizational Priorities
- Building Needs
- Future Organizational Direction

WHO?



Aligning Condition and Priority

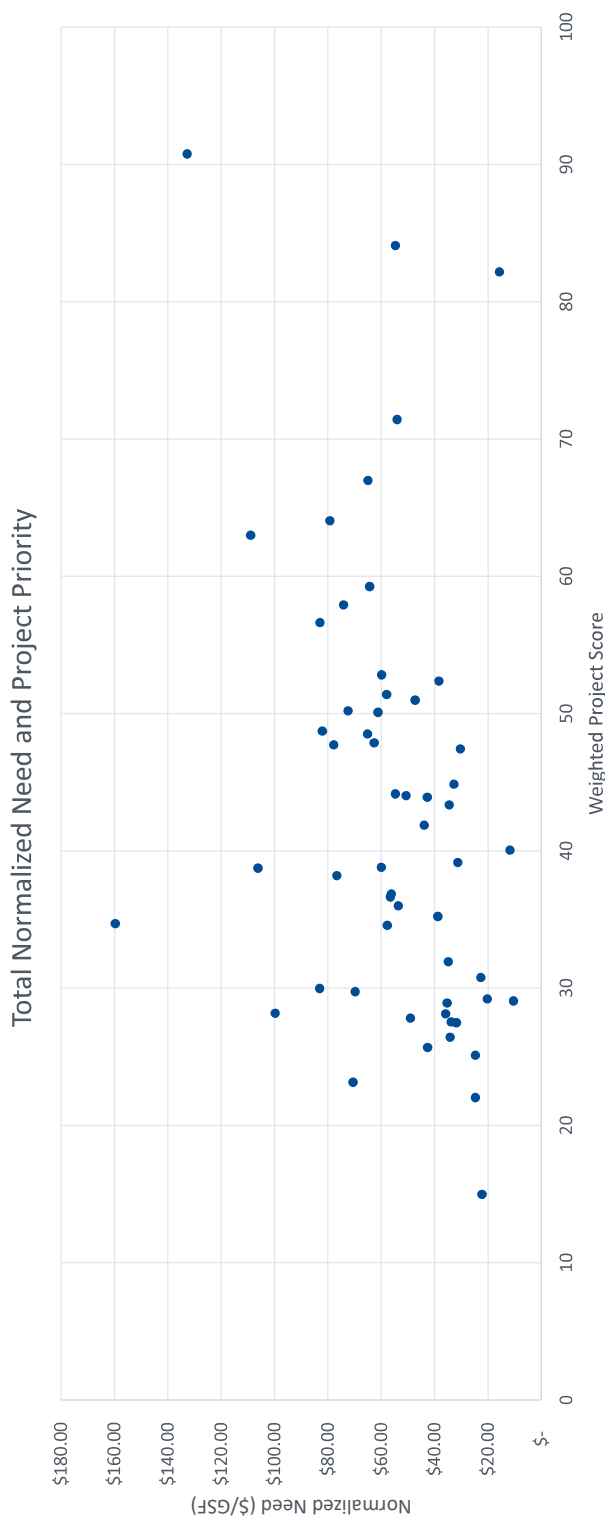


Examples of Organizational Priority:

- Function
- Program
- Region
- Specialty/Sub-specialty
- Funding Source
- Master Plan
- Project Score
- Risk Mitigation
- Operational Demand
- Space Utilization
- Service Line

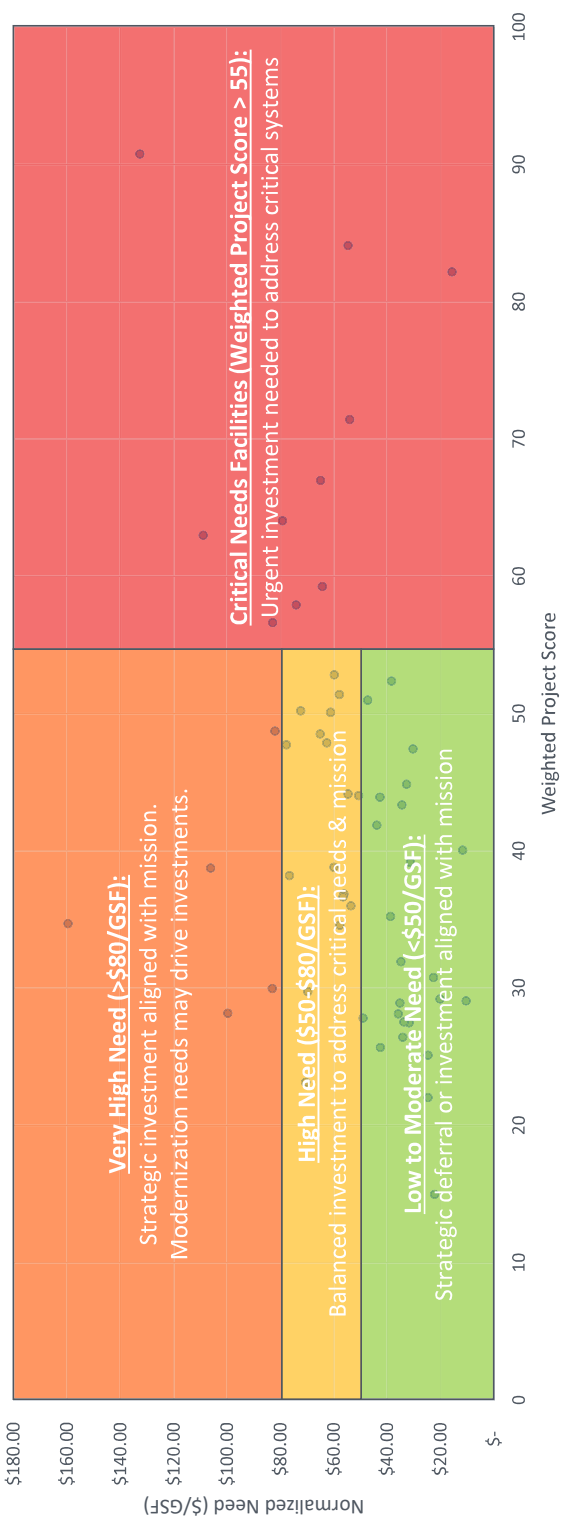


Aligning Condition with Project Score Priority



Defining Portfolios to Align Investments with Mission

Total Normalized Need and Project Priority

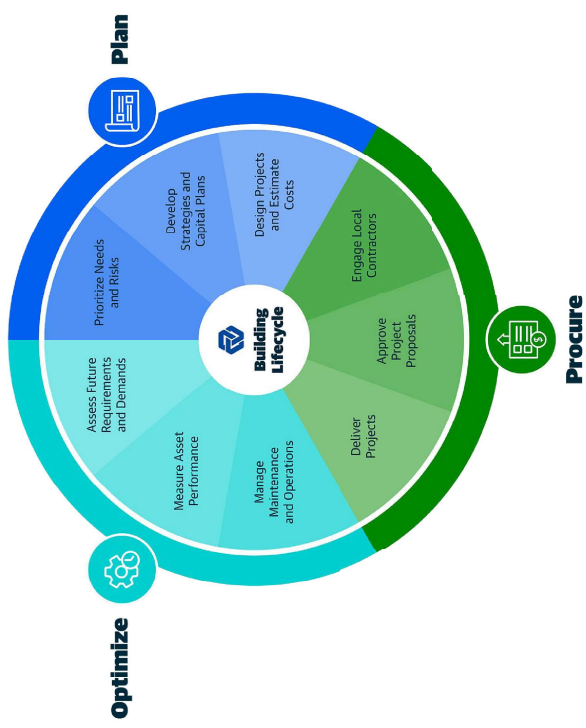


Parting Thoughts

Change Agents:

- Design/Plan Programs to Prioritize the Mission rather than Support It
- Have Situational Awareness of Their Portfolio's "In-Situ" Condition
- Engage a Diverse Team in Process Improvement
- Develop Programs based on an Envisioned Future
- Determine the Gap, and Develop Solutions to Close It
- Have Smart Data that informs Decision Making rather than Reacts to It
- Use Data to Develop Information and Trust
- Implement New Delivery Solutions for Success
"Fail Fast and Recover"

Phone a Trusted Source For Additional Expertise
Gordian is Here to Help



The image features a solid blue background with a pattern of overlapping, semi-transparent hexagons. Some hexagons are filled with a slightly darker shade of blue, while others are just outlines. In the lower-left quadrant, the word "GARDIAN" is written in a bold, white, sans-serif font. The letter "G" is stylized with a white geometric shape inside it. To the right of "GARDIAN" is a registered trademark symbol (®). Below the company name, the tagline "Building knowledge" is written in a smaller, white, sans-serif font.

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