



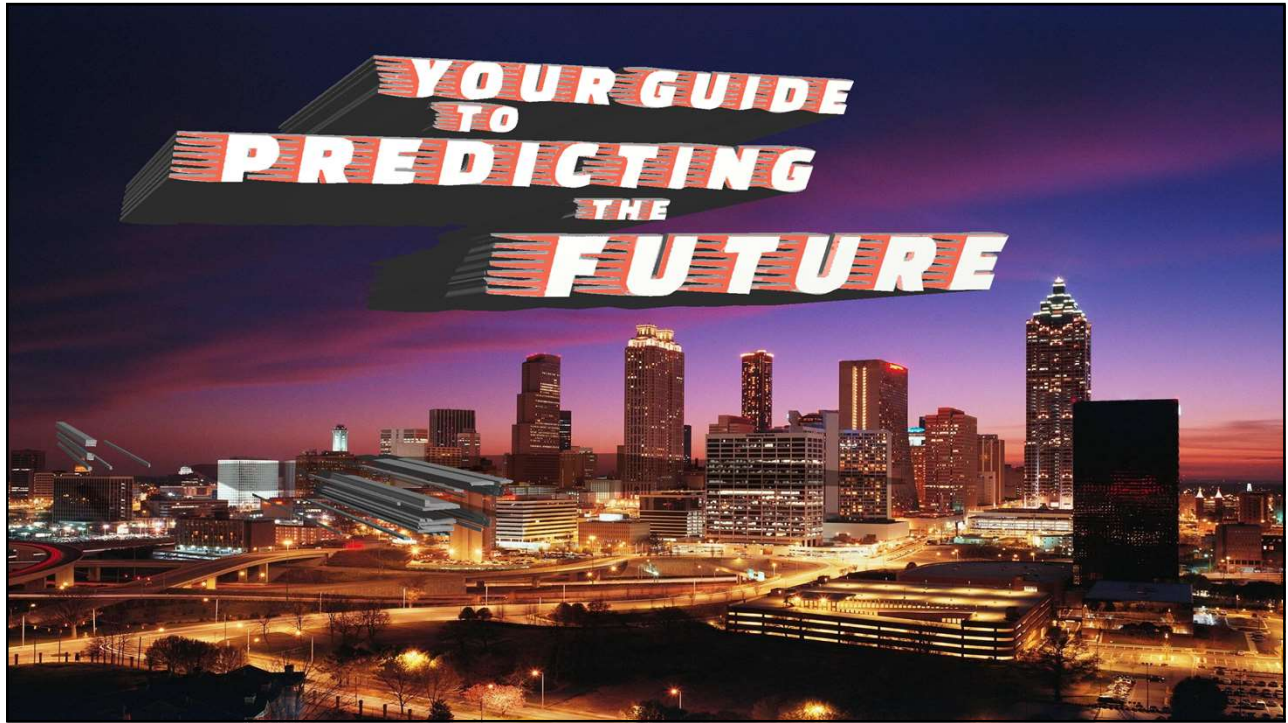
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▶ Capital Asset Stewardship

Promoting Human Flourishing by Taking Care of Your Stuff

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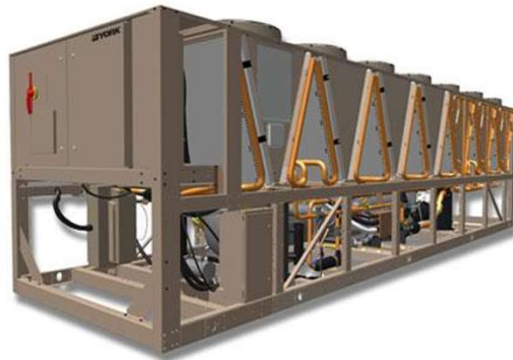


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What should a capital replacement plan do?

- ▶ ... Minimize costly surprises (prevent catastrophic failures)



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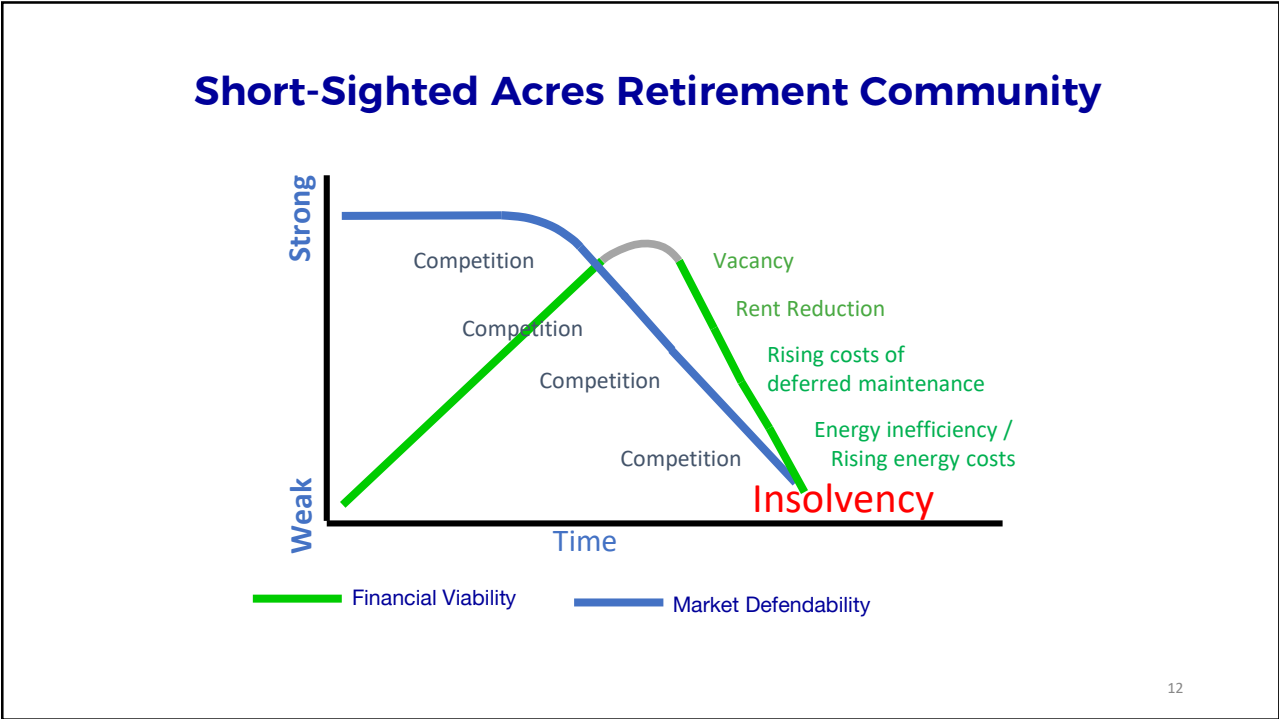
- ▶ **Everything has a finite useful life.**

Expect it ...
and plan for it.

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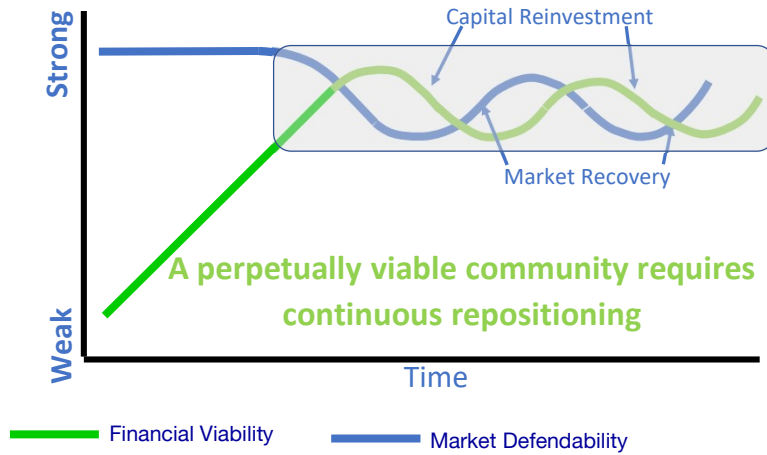
A Tale of Two Life Plan Communities

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Forward-Thinking Village Retirement Community



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Average Age of Plant

(years)

$$= \frac{\text{Accumulated depreciation}}{\text{depreciation expense}}$$

Estimates the number of years of depreciation that have been realized by the community. An increasing number may indicate that adequate resources are not being reinvested into the facilities.

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the straight-line depreciation method, is used by many not-for-profit Life Plan Communities (CCRC) to monitor the financial age of fixed assets.

The average age of plant is a simple ratio to calculate. Just divide your accumulated depreciation from your balance sheet at year-end by your annual depreciation expense. The result is an estimate of your facilities' average age. In addition, it's important for CCRCs to closely review property and equipment detail listings each year for additions and disposals. This helps provide accuracy to the detailed property and equipment records. If the property and equipment records aren't accurate, the calculation could be affected.

So what's the bottom line? A higher average age indicates a greater need for capital.

If your organization's ratio is 20, it indicates your fixed assets are approximately 20 years old. According to the Commission on Accreditation of Rehabilitation Facilities' benchmark for single-site providers, a ratio of 10 indicates you're closer to the upper quartile and the mean ratio is 12 years, while the lowest quartile is approximately 15 years.

If your average age of plant is below the mean or below the lowest quartile (greater than 15 years), it may be time to evaluate your strategic plan and chart the course for the next five years. This can help your organization remain relevant to your existing residents and future generations alike.

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Key Rating Drivers

| aa | a | bbb | bb | b |
|---|--|---|---|---|
| Average age of plant is best in the market and approx. below 9 years. | Average age of plant is strong for the market and approx. 9 years to 10 years. | Average age of plant is suitable for the market and approx. 10 years to 13 years. | Average age of plant is weaker for the market and approx. 13 years to 16 years. | Average age of plant is weak for the market and approx. above 16 years. |

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What should a capital replacement plan do?

- ▶ ...provide a detailed guide for “smart” capital reinvestment.

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Repair



Renovate



Reposition



Replace

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Table V5A

| Corp. | Item Description | Budget | Begin Date | E.U. | E.U. (2019) | Quantity | Unit | Unit Cost | Estimated Cost | Pricing Method | Item Class | 2019 Year 1 | 2020 Year 2 | 2021 Year 3 | 2022 Year 4 | 2023 Year 5 | 2024 Year 6 | 2025 Year 7 | 2026 Year 8 | Total | | | | | | | | |
|---|--|----------|------------|------|-------------|----------|------|------------|----------------|----------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------|---------|--|--|--|--|--|--|--|
| 17 | 1.05 Remove elevator cars | Warranty | 2020 | 10 | 7 | 3 | ea | 11,000.00 | 45,000 | Contract | CAP | | | | | | | | | 55,544 | | | | | | | | |
| 18 | 1.05 Machine elevators 20 wksp. 3 elevators | Warranty | 2041 | 25 | 22 | 3 | ea | 131,000.00 | 405,000 | Contract | CAP | | | | | | | | | 55,544 | | | | | | | | |
| Expense Vertical Circulation Subtotal | | | | | | | | | | | | 55,544 | 55,544 | | | | | | | | | | | | | | | |
| 3.00 Exterior Paint & Caulk | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19 | 1.00 Install Impervious traffic wear surface/sealer at garage top floor (for use from 2019) | Painting | 2018 | 5 | 4 | 20,500 | sf | 4.43 | 90,815 | Contract | CAP | | | | | 102,213 | | | | 102,213 | | | | | | | | |
| 20 | 1.00 Paint all other garage surfaces (for use from 2019) | Painting | 2018 | 5 | 4 | 1 | sq | 80,669.76 | 86,670 | Contract | CAP | | | | | 97,548 | | | | 97,548 | | | | | | | | |
| 21 | 1.00 Recoat garage surfaces at parking garage top floor (included in Horizon Painting 2020) | Painting | 2018 | | | | | | | Contract | CAP | | | | | | | | | | | | | | | | | |
| 22 | 1.00 Paint brick side forms at parking garage interior and exterior (included in Horizon Painting 2020) | Painting | 2018 | | | | | | | Contract | CAP | | | | | | | | | | | | | | | | | |
| 23 | 1.00 Oil on parking areas (included in Horizon paint project) | Painting | 2017 | 5 | 3 | 354 | sq | 12.00 | 4,248 | Contract | CAP | | | | | | | | | 199,761 | | | | | | | | |
| Expense Exterior Paint & Caulk Subtotal | | | | | | | | | | | | 399,161 | | | | | | | | | | | | | | | | |
| 3.10 Specialty | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 34 | 1.10 Canopy at front entrance, replace fabric | Warranty | 2018 | 8 | 7 | 1 | ls | 8,000.00 | 8,000 | Contract | CAP | | | | | | | | | 8,039 | | | | | | | | |
| Expense Specialty Subtotal | | | | | | | | | | | | 8,039 | 8,039 | | | | | | | | | | | | | | | |
| 5.01 Common Area Finishes Allowance | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 46 | 5.01 Lobby Removal, CIV/Duncan Corridor | Warranty | 2018 | 15 | 14 | 3,500 | sf | 40.28 | 143,000 | Contract | CAP | | | | | | | | | | | | | | | | | |
| 47 | 5.01 Recode common area interior doors at 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th, 14th, 15th, 16th, 17th, 18th, 19th, 20th, 21st, 22nd, 23rd, 24th, 25th, 26th, 27th, 28th, 29th, 30th, 31st, 32nd, 33rd, 34th, 35th, 36th, 37th, 38th, 39th, 40th, 41st, 42nd, 43rd, 44th, 45th, 46th, 47th, 48th, 49th, 50th, 51st, 52nd, 53rd, 54th, 55th, 56th, 57th, 58th, 59th, 60th, 61st, 62nd, 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd, 73rd, 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th, 88th, 89th, 90th, 91st, 92nd, 93rd, 94th, 95th, 96th, 97th, 98th, 99th, 100th | Warranty | 2030 | 40 | 11 | 100 | ea | 1,300.00 | 130,000 | Contract | CAP | | | | | | | | | | | | | | | | | |
| 48 | 5.01 Refresh bathrooms at mezzanine level | Warranty | 2017 | 8 | 6 | 1 | ls | 2,500.00 | 2,500 | Contract | CAP | | | | | | | | | 2,985 | | | | | | | | |
| 49 | 5.01 Paint building steelwork interiors | Warranty | 2022 | 8 | 3 | 34,000 | sf | 7.50 | 255,000 | Contract | CAP | | | | | 30,333 | | | | 30,333 | | | | | | | | |
| 50 | 5.01 Recode floor at 15th level | Warranty | 2022 | 10 | 3 | 1,143 | sf | 2.50 | 2,858 | Contract | CAP | | | | | 3,114 | | | | 3,114 | | | | | | | | |
| 51 | 5.01 Recode Mezzanine level floors, with ceiling, at 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th, 14th, 15th, 16th, 17th, 18th, 19th, 20th, 21st, 22nd, 23rd, 24th, 25th, 26th, 27th, 28th, 29th, 30th, 31st, 32nd, 33rd, 34th, 35th, 36th, 37th, 38th, 39th, 40th, 41st, 42nd, 43rd, 44th, 45th, 46th, 47th, 48th, 49th, 50th, 51st, 52nd, 53rd, 54th, 55th, 56th, 57th, 58th, 59th, 60th, 61st, 62nd, 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd, 73rd, 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th, 88th, 89th, 90th, 91st, 92nd, 93rd, 94th, 95th, 96th, 97th, 98th, 99th, 100th | Warranty | 2019 | 15 | | 4,850 | sf | 6.19 | 30,000 | Contract | CAP | 30,000 | | | | | | | | 30,000 | | | | | | | | |
| 52 | 5.01 Remove Social Room at mezzanine level (floor, walls, ceiling, art, furniture, etc.) | Warranty | 2018 | 15 | | 3,360 | sf | 8.47 | 28,483 | Contract | CAP | 20,000 | | | | | | | | 20,000 | | | | | | | | |
| 53 | 5.01 Remove common floor covering, walls, ceiling, fire paint, fire alarm, etc. | Warranty | 2018 | 20 | 19 | 21,696 | sq | 16.77 | 363,000 | Contract | CAP | | | | | | | | | | | | | | | | | |
| Expense Common Area Finishes Allowance Subtotal | | | | | | | | | | | | 50,000 | | | | | | | | | | | | | | | | |
| Expense Total (includes) | | | | | | | | | | | | 58,854 | 89,641 | 299,324 | 42,452 | 201,110 | | | 58,661 | 81,828 | 844,378 | | | | | | | |

Annual capital replacement expense

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Methodology

... how, when, who?

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Methodology

Practical Steps

- A. Walk-through visual survey
- B. Review construction drawings
- C. Interview department heads - Nursing, Food service, Accounting, Physical plant, Grounds
- D. Catalog all capital assets

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Methodology

Qualify Capital Assets

- Estimated Useful Life (EUL) >1 year
- Replacement cost > \$1000

Quantify Capital Assets

- Replacement date (and replacement interval)
- Replacement cost

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Methodology

Estimated Useful Life

- HUD
- ASHRAE (American Society of Heating Refrigeration and Air conditioning Engineers)
- AHA(American Hospital Association)

Replacement Cost

- RSMeans, on-line cost databases, the consultant's experience and knowledge
- The community's actual spending history

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Methodology

Deliverable

- A. 20-year detailed replacement schedule


... What you should expect to spend each year for the next 20 years?

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| | Catg. | Item Description | Begin Date | EUL | RUL (2020) | Quantity | Unit | Unit Cost | Estimated Cost | Pricing Method | Item Class | 2020 Year 1 | 2021 Year 2 |
|--|-------|---|------------|-----|------------|----------|------|-----------|----------------|----------------|------------|-------------|-------------|
| | 03.04 | Thermal & Moisture Protection Systems | | | | | | | | | | | |
| 1 | 03.04 | Roofing, architectural shingles | 1990 | 25 | 20 | 9 | ea | 19,500.00 | 175,500 | Contract | CAP | 19,500 | |
| 2 | 03.04 | Roof, EPDM, 60-mil, Ballasted | 1996 | 28 | 4 | 5,087 | sf | 2.35 | 11,954 | Contract | CAP | | |
| Expense Thermal & Moisture Protection Systems Subtotal | | | | | | | | | | | | 19,500 | |
| | 03.07 | Doors, Windows & Hardware | | | | | | | | | | | |
| 3 | 03.07 | Automatic Door Operators | 2003 | 3 | 1 | 1 | ea | 1,500.00 | 1,500 | Contract | CAP | | 1,545 |
| 4 | 03.07 | Windows, exterior | 2021 | 30 | 1 | 2,450 | sf | 65.00 | 159,250 | Contract | CAP | | 164,028 |
| Expense Doors, Windows & Hardware Subtotal | | | | | | | | | | | | 165,573 | |
| | 03.08 | Vertical Circulation | | | | | | | | | | | |
| 5 | 03.08 | Elevators Finishes Upgrades, 5-stops | 2021 | 30 | 1 | 3 | ea | 35,000.00 | 105,000 | Contract | CAP | | 108,150 |
| Expense Vertical Circulation Subtotal | | | | | | | | | | | | 108,150 | |
| | 03.09 | Exterior Paint & Caulk | | | | | | | | | | | |
| 6 | 03.09 | Recaulk Exterior Doors and Windows, Control Joints in Masonry | 2021 | 30 | 1 | 1 | ls | 60,000.00 | 60,000 | Contract | CAP | | 61,800 |
| Expense Exterior Paint & Caulk Subtotal | | | | | | | | | | | | 61,800 | |
| | 04.01 | HVAC | | | | | | | | | | | |

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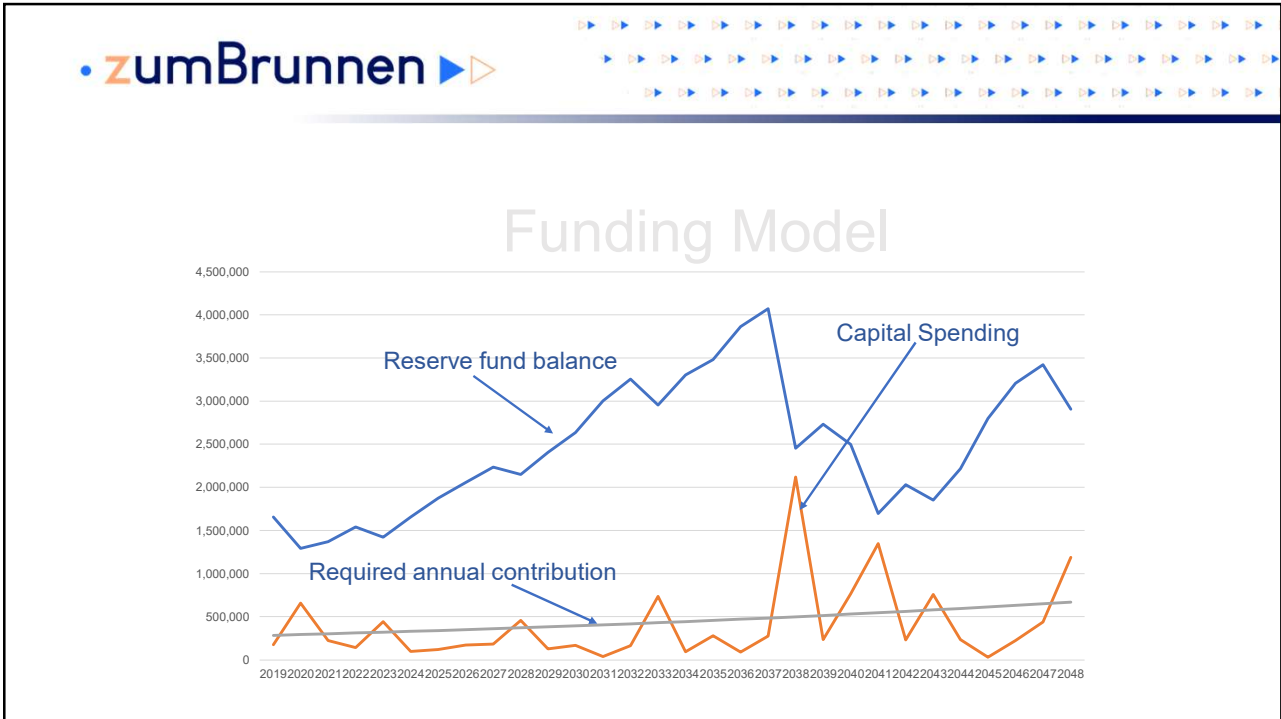
Methodology

Deliverable

- A. 20-year detailed replacement schedule
- B. Funding Model

... What you must contribute to a Reserve Fund in order to support spending prescribed by the 20-year schedule

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When's the best time?

- ▶ Several months BEFORE budget season

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When's the best time?

- ▶ Prior to a major expansion project



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Methodology

Who best to do the work?

- A. Someone with margin to invest ample time into investigation, data collection, forecasting
- B. Someone with expertise in construction systems, materials, inherent limitations, common defects, EUL, replacement cost, etc.
- C. Someone with fresh eyes - (not blinded by familiarity)
- D. Someone NOT conflicted by dual interests

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The Capital Replacement Plan is the tool. . .

These are the benefits:

- ▶ Avoid catastrophic failures

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The Capital Replacement Plan is the tool. . .

These are the benefits:

- ▶ Answer the 4 “R”s

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The Capital Replacement Plan is the tool. . .

These are the benefits:

- ▶ Justify projects

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The Capital Replacement Plan is the tool. . .

These are the benefits:

- ▶ Justify increases in entry fees and rents

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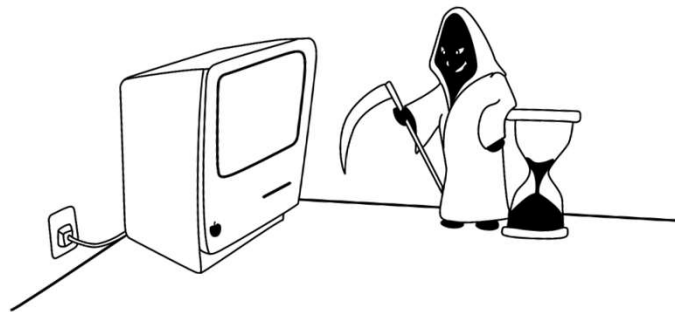


The Capital Replacement Plan is the tool . . .

These are the benefits:

- ▶ Maintain healthy Average Age of Plant and optimal credit rating.

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Everything has a finite useful life.
Expect it . . . and plan for it.

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Doug McMillan
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Doug McMillan, President of zumBrunnen, Inc., has a long-standing engineering and construction management career. With more than 40 years of diverse experience, Doug has overseen and managed a variety of projects in the senior living, multi-family, retail, industrial, and military construction arenas. Prior to joining zumBrunnen, Inc. in 1998 as a Senior Project Manager, Doug worked in both the private and public sectors. The majority of his career was with the U.S. Army Corps of Engineers advancing from Chief of Quality Assurance to Resident Engineer in both the Los Angeles and Savannah Districts. In addition to senior management responsibilities, he was the lead instructor for Corps of Engineers training courses in roofing, structural steel, and welding. He is a registered professional Civil Engineer in the State of California.

As facilities continue to age, owners, advisors, and investors are demanding independent and objective assessments of the facilities' physical condition and accurate projections for capital replacement funding. zumBrunnen, Inc. has completed numerous assessments for homeowner's associations, boards, management companies, and senior living campuses throughout the United States. The company's commitment to and reputation for providing comprehensive and objective reporting has earned them the endorsement of their provider clients and the most prominent of the financial product and service companies, design professionals, developers, and management companies servicing the multi-family housing field.



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