

WHAT IS CYCLICAL RENEWAL AND WHY SHOULD I CARE?

RothNotes
series

When determining the forecasting horizon or evaluation period for Facility Condition Assessments (FCAs) and projecting future renewal needs, it's important to address cyclical renewals, especially for long-term forecasts (over 20 years).



Understanding Cyclical Renewals

Cyclical renewal refers to the replacement of elements with an Expected Useful Life (EUL) shorter than the planning horizon. For example, in a 30-year forecast, elements like carpet with a 10-year EUL might be replaced three times if its Remaining Useful Life (RUL) is low at the time of the FCA. This results in replacements in Years 3, 13, and 23.

Benefits and Drawbacks



Benefits

- **Accurate Cost Forecasting:** Including cyclical renewals provides a more realistic estimate of future capital needs, accounting for multiple replacements over the forecast period.
- **Conservative View:** Offers a “worst case” scenario, which helps in understanding the maximum potential future capital expenditures.

Drawbacks

- **Deferral in Real-World Scenarios:** Elements might not be replaced precisely at the end of their EUL, especially those with lower criticality, due to budget constraints.
- **Complexity in Forecasting:** Deciding which elements to include for cyclical renewals can complicate the forecast and the asset management narrative to stakeholders.



Strategic Recommendations

All-In or None: To maintain clarity and consistency in forecasting, either include cyclical renewals for all elements or exclude them entirely.

Align with Objectives: Focus on the story you want to tell your stakeholders. The forecast should align with your organization's goals and objectives, considering cyclical renewals as part of this strategy if it supports your narrative.

Forecast vs. Capital Plan: Remember, a forecast is a list of needs, not a final capital plan. It helps identify potential future needs and inform decision-making but doesn't dictate exact spending.

By carefully considering the role of cyclical renewals in your forecasting, you can create a more accurate and useful long-term plan that aligns with your organizational goals and effectively communicates the anticipated needs to stakeholders.

