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ORIGINAL

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Budgeting Procedures for Housing Managers

Instructor's Guide

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February, 1979

The research forming the basis for this workshop was conducted pursuant to grants between the U.S. Department of Housing and Urban Development and the five universities listed on the page of acknowledgements. Statements and information contained in this workshop are those of the grantees who assume sole responsibility for their accuracy and completeness.

FOREWORD

This instructor's guide is one of eighteen in a housing-management curriculum developed by HUD in conjunction with Temple University.

The guide reprints all the material in the participant's workbook, but gives more detailed information where necessary and answers the test questions.

Our hope is that with your help, the workshops using this curriculum will advance professionalism in the field of housing management. The lack of professionalism -- that is, the lack of uniform standards which allows people of varying knowledge and abilities to manage HUD-assisted and privately financed housing -- has contributed to some serious problems: high default rates, abandonments, and vandalism. To correct such problems is important. We are glad to have you working with us.

Donna E. Shalala
Assistant Secretary for
Policy Development and Research

Lawrence B. Simons
Assistant Secretary for
Housing -- Federal Housing
Commissioner

PREFACE

Each workbook in this series presents a number of learning objectives targetted to a selected area of management. Successful completion of the learning objectives presented in each workbook provides a series of building blocks to buttress the spectrum of skills required of a housing manager.

In preparing these workbooks, an attempt has been made to incorporate the range of knowledge that housing managers might be required to draw upon. Likewise, an attempt has been made to reflect the present state-of-the-art of housing management. Inevitably, whatever is captured in print reflects a body of knowledge and practice up to the point of publication. Therefore, the students and instructors making use of these workbooks will want to keep alert to new developments that should be integrated into the workbook material. Furthermore, like any attempt to codify knowledge in a particular field, the material presented in these workbooks is open to differences of interpretation and emphasis. We are aware that there may be some techniques and procedures described in these workbooks with which some experts in the field might disagree. The best test of such procedures and techniques will come when they are applied in the field by housing management practitioners. Through this process, the state-of-the-art will continue to be improved. Instructors in the future will undoubtedly want to incorporate such acknowledged improvements into their delivery of the workbook material.

One final point is worth mentioning. An initial impetus for these workbooks was the need to upgrade management skills in HUD-related housing. However, many of the principles presented should be viewed by students and instructors as applicable to multifamily housing management practices in the private sector.

ACKNOWLEDGEMENTS

The five universities listed below worked together to develop a college-level curriculum for housing management. The fifteen modularized workshops were developed and compiled by the Center for Social Policy and Community Development at Temple University using specific elements of the college curriculum.

Center for Housing and Real Estate
School of Business and Public Administration
Howard University
Washington, D. C. 20059

Housing Management Program
College of Business
Southern University and A & M College
Baton Rouge, Louisiana 70813

Center for Social Policy and Community Development
Housing Management Institute
Temple University
Philadelphia, Pennsylvania 19122

School of Public Affairs
Texas Southern University
Houston, Texas 77004

Housing Management Division
Business Department
Winston Salem State University
Winston Salem, North Carolina 27102

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BUDGETING PROCEDURES FOR HOUSING MANAGERS

INTRODUCTION

An important function of the housing manager is to control expenditures. A good manager must insure that effective results are produced in return for money spent. A budget is a useful device for such a purpose.

Although every housing manager works with a budget, many lack a truly comprehensive budgeting system. The overall goal of this workshop is to enable managers to implement such a comprehensive system.

The workshop contains four main learning objectives:

(1) Participants will cite three (3) useful aspects of a comprehensive budget system.

(2) Participants will list the three (3) major types of budgets and define each.

(3) Participants will cite three (3) important items to consider in making budget projections.

(4) Participants will identify four (4) ratios used for analyzing financial data.

These learning objectives are, simply, measurable statements about the specific knowledge participants are expected to acquire in the workshop.

Each learning objective, in turn, has what is called an anticipated practice outcome. Anticipated practice outcomes are those practical skills a participant can be expected to implement on the job using the information acquired in the workshop.

In other words, anticipated practice outcomes refer to the ways knowledge acquired in the workshop can be applied to real problems and situations.

The workshop, organized around the learning objectives and anticipated practice outcomes, requires one half day session.

HOW TO USE THE INSTRUCTOR'S GUIDE

This is the Instructor's Guide to the workshop on Budgeting Procedures for Housing Managers. In addition to listing goals, learning objectives, and anticipated practice outcomes, it contains a detailed content section and discusses appropriate methodology and resources. It also provides answers to the post-test evaluations and suggests criteria for evaluating results of the skill-test items.

The Participant's Workbook for the workshop contains the same introduction and description of goals, learning objectives and anticipated practice outcomes. However, the content and methodology are less detailed and only those materials required for participants in the post-test and skill-test are included.

The workshop is organized around learning objectives and anticipated practice outcomes. The overall workshop plan is presented in the matrix on page vi.

At the top of the page is a box containing the overall problem. At the far left is the overall goal of the workshop. The goal states in broad terms how the workshop will address the problem.

To the right of the goal are the four learning objectives of the workshop. These objectives comprise a list of the specific knowledge a participant is expected to acquire during the workshop.

The next column to the right, labeled "Content," lists the material to be covered in the workshop.

Moving farther right, the next column contains methodology. Outlined in the methodology column is the teaching method suggested for the workshop. For this workshop a series of informal lectures is recommended.

Under "Resources," the next column, is a description of who will conduct the course. For this workshop, program staff will be used.

The next column lists those corresponding post-test items which will measure how well participants met the learning objectives.

This column is followed by the anticipated practice outcomes, which are more practical skills or attitudes that the participant is expected to acquire.

Finally, the last column on the left lists corresponding skill-test items, which will measure how well participants met the anticipated practice outcomes.

WORKSHOP MATRIX

PROBLEM: Many Managers Lack a Truly Comprehensive Budgeting System.

GOAL	LEARNING OBJECTIVES	CONTENT	METHODOLOGY	RESOURCES	EVALUATION OF KNOWLEDGE ACQUIRED	ANTICIPATED PRACTICE OUTCOMES	EVALUATION OF IMPROVEMENTS IN SKILL
1. To enable managers to implement a comprehensive budget system.	1. Participants will cite three (3) useful aspects of a comprehensive budget system.	1. Operations control 2. Planning control 3. Motivation 4. Evaluation	1. Informal lecture	1. Workshop Staff	1. Completion of post-test item 1.	1. Participants will cite three (3) useful aspects of a comprehensive budget system.	1. Completion of skill-test item 1.
	2. Participants will list the three (3) major types of budget and define each.	1. Operating budget a. program b. responsibility c. cash 2. Capital expenditure budget	1. Informal lecture	1. Workshop Staff	1. Completion of post-test item 2.	2. Participants will examine five (5) case studies and select the most appropriate budget for each.	1. Completion of skill-test item 2.
	3. Participants will cite three (3) important items to consider in making budget projections.	1. Unpredictable expenses 2. Normal wear and tear 3. Predictable replacements.	1. Informal lecture	1. Workshop Staff	1. Completion of post-test item 3.	3. Participants will examine an annual budget request and make three (3) suggestions for improving it.	1. Completion of skill-test item 3.
	4. Participants will identify four (4) ratios used for analyzing financial data.	1. Vacancy Rate 2. Current Ratio 3. Resident Turnover Ratio 4. Expense Ratio	1. Informal lecture	1. Workshop Staff	1. Completion of post-test item 4.	4. Participants will correctly apply four (4) budget ratios to case study problems.	1. Completion of skill-test item 4.

GOAL AREA

TO ENABLE MANAGERS TO IMPLEMENT
A COMPREHENSIVE BUDGET SYSTEM

GOAL AREA: TO ENABLE MANAGERS TO IMPLEMENT A COMPREHENSIVE BUDGET SYSTEM

LEARNING OBJECTIVES	ANTICIPATED PRACTICE OUTCOMES
1. Participants will cite three (3) useful aspects of a comprehensive budget system.	1. Participants will cite three (3) useful aspects of a comprehensive budget system.
2. Participants will list the three (3) major types of budget and define each.	2. Participants will examine five (5) case studies and select the most appropriate budget for each.
3. Participants will cite three (3) important items to consider in making budget projections.	3. Participants will examine an annual budget request and make three (3) suggestions for improving it.
4. Participants will identify four (4) ratios used for analyzing financial data.	4. Participants will correctly apply four (4) budget ratios to case study problems.

Content

Useful Aspects of a Budget

A budget can be defined as a plan expressed in quantitative terms. Budgets result in better planning, improved coordination, and more effective organizational control. Budget preparation is generally not undertaken by a single individual.

There are several ways in which budgets are useful. They are devices for expressing, making, and coordinating plans. They can be used as a means of communicating plans to those who are responsible for carrying them out. They can also be used to motivate managerial personnel at all levels. Moreover, at the end of a fiscal year, budgets can be used as an evaluative standard for measuring actual performance.

Types of Budgets

Operating Budgets - Budgets are prepared for the various activities of a business organization. An operating budget, also called a revenue and expense budget, is usually prepared in terms of revenue and expenses, and shows planned operations for a forthcoming period. It establishes a standard against which to judge performance and provides a basis for the formulation of other budgets. An operating budget usually consists of two parts - a program budget and a responsibility budget. A program budget describes the major program the organization plans to undertake. Such a budget shows the anticipated revenue and costs associated with each aspect of a housing development. A responsibility budget sets forth plans in terms of persons responsible for carrying them out. It is, therefore, primarily a control device, since it is a statement of expected or standard performance against which actual performance can later be compared.

Cash budgets - There are other budgets which are linked directly to an operating budget. A cash budget, for example, shows the anticipated sources and uses of cash. An operating budget is usually prepared in terms of revenue and expenses. For financial planning purposes, it must be translated into terms of cash receipts and cash disbursements. Such a translation results in a cash budget. A manager can use the cash budget to make plans to insure that his organization will have enough cash on hand during an upcoming period.

Capital expenditure budgets - Still other items are involved in budgeting. Since expenditures and cash receipts are planned, capital expenditures should be anticipated in budgetary preparation. A capital expenditure budget shows the anticipated planned changes in fixed assets, such as the remodeling of residents' recreational facilities, painting of apartment units, and so forth. A capital expenditure budget is essentially a list of what management believes to be worthwhile projects for the acquisition of new capital assets, together with the estimated cost of each project. A capital expenditure budget is usually prepared separately from the operating budget.

Using a Budget

Once a budget has been prepared and approved, a manager is appropriated a total budget for the operating expenses of his housing development. A manager's monthly budget, shown on the following page, is used for the day-to-day maintenance and custodial upkeep of the housing development. In reporting these costs, a manager should place emphasis on those costs over which he may exert control.

MANAGER'S MONTHLY BUDGET

Item Description	Budget for Mo.__ Yr.__	Purchase Orders Written as of 15th of Month	Purchase Orders Written as of Last Day of Mo.
Painting and Decorating			
Appliance Repair and Replacement			
Plumbing and Heating Repair and Replacement			
Building Repair and Replacement			
Capital Repair			
Office Supplies and Expenses			
Janitor Expenses and Supplies			
Trash Removal			
Exterminating			
Grounds Expense			
Vehicle Expense			
Air Conditioning Expense			
Elevator			
Miscellaneous Expense			
Total Resident Manager Budget			

The annual budget request, shown below, is used by the manager as a basis for preparing monthly budgets.

ANNUAL BUDGET REQUEST

ORGANIZATION ______________________________

BUDGET PERIOD ______________ REVIEW DATE ______________

Account #		Projected	Actual
101	Gross Rent Potential	______	______
105	Vacancy Loss	______	______
110	Rent Adjustment	______	______
111	Miscellaneous Income	______	______
	Total Income	______	______
401	Painting and Redecorating	______	______
402	Appliance Repair	______	______
403	Plumbing and Heating	______	______
404	Building Repair	______	______
405	Office	______	______
406	Janitor	______	______
407	Trash Removal	______	______
408	Exterminating	______	______
409	Grounds	______	______
410	Vehicles	______	______
411	Air Conditioning	______	______
412	Salaries and Payroll Tax	______	______
413	Employees' Rent and Utilities	______	______
410	Elevator	______	______
411	Merchandising	______	______
412	Model	______	______
413	Management Fee	______	______
414	Utilities	______	______
	Electrical	______	______
	Gas	______	______
	Water and Sewer	______	______
415	Insurance	______	______
416	Professional	______	______
417	Miscellaneous	______	______
	Total Operating Expense	______	______
420	Real Estate Tax	______	______
421	Debt Service	______	______
	Total Expense	______	______
501	Net Balance	______	______
502	A and P - Beginning Balance	______	______
503	A and P - Ending Balance	______	______
504	Move Out Average - Beginning Balance	______	______
505	Move Out Average - Ending Balance	______	______
	Total Operating Cash Flow	______	______

The annual budget summary, shown below, is the form on which the budget is approved by the local housing authority.

ANNUAL BUDGET SUMMARY

ORGANIZATION ______________________________

BUDGET PERIOD ______________________ REVIEW DATE ________

Operating Cash Flow	Total Annual	Percent of GRP
Gross Rent Potential (GRP)	______	______
Less		
Vacancy	______	______
Operating Expense	______	______
Capital Improvements	______	______
Real Estate Taxes	______	______
Debt Service	______	______
Bad Debt	______	______
Total Loss	______	______
Net Rental Income	______	______
Other Income	______	______

Cash Flow	Total Annual	Per Unit Annual
At ______% Vacancy	______	______
At ______% Vacancy	______	______
At ______% Vacancy	______	______
At ______% Vacancy	______	______

Date ________________ Approved By ________________

Conditions ______________________________
____
____
____
____

Payroll, as the largest single controllable expense, should get the closest attention in any cost control program. An important element in controlling payroll is to keep a monthly analysis of manpower or a manpower budget. Such a budget, shown below, is based on a forty-hour per-person week and is issued to the housing manager on a monthly basis with each week already filled in.

MANPOWER BUDGET

Budget Week Ending Each Thursday at 5 p.m.	Ending____ Ending____ Ending____ Ending____
Administrative	
Custodial - Residential	
Grounds	
Maintenance	
Rental	
Guard	
Custodial - Commercial	
Miscellaneous	

*Shown in 40-hour man-week

Making Budget Projections

The operating budget is usually prepared in terms of revenues and expenses. It consists of an estimated or projected financial statement for the year instead of an actual one. Such an estimate can be prepared from prior years' statements or from similar buildings if the building is new. A monthly estimate can be arrived at by dividing annual figures by twelve. The actual monthly statement should then be checked against this budget, and the differences analyzed. If there are variations, a recheck should explain why certain figures are either too high or too low.

Many firms include cumulative year-to-date figures in their monthly statements. Such figures are useful in saving time and effort. Current year-to-date figures can also be compared with previous years to note progress or retrogression.

Adjustments for any extraordinary, one-time, or unpredictable expenses, such as a major boiler repair, equipment replacement, or catastrophe, should be made. Normal wear-and-tear on equipment should be included in the forecast, as well as normal painting, refurnishing, or replacement. With good prior-year statements, such adjustments are easy to make. Other predictable capital expenditures, such as replacement of appliances or carpeting, should also be budgeted.

Ratio Analyses

A common technique for analyzing financial data is ratio analysis. Ratio analysis involves computing selected ratios from financial results of operation and comparing them against a pre-determined goal. Such a goal can be a formal industry standard, an informal, generally accepted standard, the development's budget, or industry averages for comparable developments.

Even though ratio analysis is widely used, it can raise more questions than it answers. Interpreting whether a ratio indicates a favorable or unfavorable result is subject to the interaction of many variables. Nevertheless, ratios offer a useful starting point for detecting trends and identifying problem areas.

Several typical ratios and what they attempt to reflect are presented below. Such ratios can easily be charted to provide a display of trends.

1. Vacancy Rate

$$\textit{Vacancy Rate} = \frac{\textit{Number of Units - Days Vacant per Month}}{30 \times \textit{Number of Units}}$$

The vacancy rate indicates the level of use of the units for any given month. Ideally, there should never be any vacancies; however, since there must be turn-around time between move-outs and move-ins, there will be some vacancy whenever a unit changes hands. Calculating the vacancy rate enables the manager to track both efficiency in cutting down turn-around time and how well rental income is meeting the budgeted expectations.

2. Current Ratio

$$\textit{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

The current ratio gives an indication of the development's debt paying ability. Generally speaking, a current ratio of 200%, or 2 to 1, is considered safe and acceptable for most housing developments, although exceptions are possible. Careful interpretation of current ratios is required. An increase in the current ratio may not reflect an improvement in the management of the development. For example, assuming a hypothetical situation in which current assets equal $2,000 and current liabilities equal $1,500, the current ratio would be 1.33:

$$\textit{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}} = 2{,}000 = 1.33 \text{ or } 133\%$$

If, however, a $500 debt were repaid, all other things being equal, the current ratio would increase to 1.5:

$$\frac{\$2{,}000-\$500}{\$1{,}500-\$500} = \frac{\$1{,}500}{\$1{,}000} = 1.5 \text{ or } 150\%$$

However, although the current ratio increased, there was not an improvement in debt paying ability.

3. Resident Turnover Ratio

$$\textit{Resident Turnover} = \frac{\textit{Total Units Becoming Vacant During the Period}}{\textit{Average Units Occupied for the Period}}$$

The resident turnover ratio provides an indication of how fast units are becoming vacant. If over a period of time the resident turnover is increasing, expenses related to re-renting a unit (painting, cleaning, advertising) would also be expected to increase. An increasing resident turnover ratio may also signal problems related to the type of resident, resident application processing, or general economic conditions. In general, then, a low turnover rate is desirable to minimize expenses related to re-renting an apartment.

For example, in a 100-unit development, 98 units were occupied at the beginning of a period; 94 are occupied at the end of a period, with 10 units becoming vacant during the period.

$$\text{Average Units Occupied} = \frac{98 + 94}{2} = \frac{192}{2} = 96$$

$$\text{Resident Turnover Ratio} = \frac{\text{Units Becoming Vacant During Period}}{\text{Average Units Occupied}} =$$

$$\frac{10}{96} = .0104 \text{ or } 1.04\%$$

4. Expense Ratio

$$\textit{Expense Ratio} = \frac{\textit{Total Expenses}}{\textit{Total Income}}$$

The expense ratio provides an indication of profitability. Where total expenses equal total income, the development is breaking even and the ratio will be 1 (100%). Assuming an adequate level of services and maintenance, where the ratio is less than 1 (100%), expenses are less than income and the development is making a profit. Conversely, when ratio is greater than 1 (100%), expenses exceed income and the development is incurring a loss. Smaller ratios are more desirable, since expenses are thus a smaller portion of income, and profits are greater.

Each category of expenses (renting, administrative, operating) can also be divided by total income to indicate what percent of the income is being expended for that category of expense. (Individual expense accounts, such as advertising, can also be used in the calculation.) An increase in the percentage(s) over time, may indicate that expenses are in need of tighter control.

BIBLIOGRAPHY

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Sisk, Henry L., *Management and Organization,* Cincinnati, Ohio, South-western Publishing Company, 1973.

POST-TEST

POST-TEST: WHAT DID YOU LEARN?

(1) *Cite three useful aspects of a comprehensive budget system:*

(a) ______________________________

(b) ______________________________

(c) ______________________________

(2) *Match the following budget types with their definitions:*

_____ Operating budget	(a) Shows anticipated sources and uses of cash
_____ Program budget	(b) Prepared in terms of reserve and expenses; shows planned operations for a forthcoming period
_____ Responsibility budget	(c) Sets forth plans in terms of who must carry them out
_____ Cash budget	(d) Shows anticipated planned changes in fixed assets
_____ Capital expenditure budget	(e) Describes major programs to be undertaken

(3) *Cite three important items to consider in making budget projections:*

(a) ______________________________

(b) ______________________________

(c) ______________________________

4. *Complete the following matrix:*

Ratio	Formula	Definition
	$\frac{\text{(No.Units)-Days Vacant/Mo.}}{\text{(30) x (No. Units)}}$	
	$\frac{\text{(Current Assets)}}{\text{Current Liabilities}}$	
	$\frac{\text{(Total Units Becoming Vacant)}}{\text{Average Units Occupied}}$	
	$\frac{\text{(Total Expenses)}}{\text{(Total income)}}$	

ANSWERS TO POST-TEST

ANSWERS TO POST-TEST

1. (a) operations control

   (b) planning control

   (c) organizational motivation

   (d) evaluations

2. b, e, c, a, d

3. (a) unpredictable expenses

   (b) normal wear and tear

   (c) predictable replacements

4. Participants were asked to complete the following matrix:

Ratio	Formula	Definition
Vacancy Rate	$\frac{\text{(No.Units)-Days Vacant/Mo.}}{\text{(30) x (No. Units)}}$	Indicates level of use of the units for any given month
Current Ratio	$\frac{\text{(Current Assets)}}{\text{Current Liabilities}}$	Indicates development's debt paying ability
Resident Turn-over Ratio	$\frac{\text{(Total Units Becoming Vacant)}}{\text{Average Units Occupied}}$	Indicates how fast units are becoming vacant
Expense Ratio	$\frac{\text{(Total Expenses)}}{\text{(Total Income)}}$	Indicates profitability

SKILL-TEST

SKILL-TEST: CAN YOU USE WHAT YOU HAVE LEARNED IN WORK SITUATIONS?

1. *See post-test item 1.*

2. *Below are several case study items. Select the appropriate budget type to meet the problem at hand:*

_____ (a) A manager seeks to increase his control of actual performance by comparing it against a statement of expected performance.

_____ (b) A manager wishes to show the anticipated revenue and cost associated with each aspect of a housing development.

_____ (c) A manager wants to plan his acquisition of new assets.

_____ (d) A manager wishes to show anticipated sources and uses of liquid assets.

_____ (e) A manager wishes to show revenue and expenses.

3. *Review the following annual budget request.*

ANNUAL BUDGET REQUEST

ORGANIZATION ______________________________

BUDGET PERIOD ______________ REVIEW DATE ______________

Account #		Projected	Actual
101	Gross Rent Potential	______	______
105	Vacancy Loss	______	______
110	Rent Adjustment	______	______
111	Miscellaneous Income	______	______
	Total	______	______
402	Appliance Repair	______	______
403	Plumbing and Heating	______	______
404	Building Repair	______	______
405	Office	______	______
406	Janitor	______	______
407	Trash Removal	______	______
408	Exterminating	______	______
409	Grounds	______	______
410	Vehicles	______	______
411	Air Conditioning	______	______
413	Employees' Rent and Utilities	______	______
410	Elevator	______	______
411	Merchandising	______	______
412	Model	______	______
413	Management Fee	______	______
415	Insurance	______	______
416	Professional	______	______
417	Miscellaneous	______	______
	Total Operating Expense	______	______
420	Real Estate Tax	______	______
421	Debt Service	______	______
	Total Expense	______	______
501	Net Balance	______	______
502	A and P - Beginning Balance	______	______
503	A and P - Ending Balance	______	______
504	Move Out Average - Beginning Balance	______	______
505	Move Out Average - Ending Balance	______	______
	Total Operating Cash Flow	______	______

Cite three (3) important missing items:

(a) ______________________________

(b) ______________________________

(c) ______________________________

4. *Calculate the following ratios:*

_____ (a) A 500 unit building had 8 units vacant for an entire month. What is its vacancy rate?

_____ (b) The current assets of a development equal $4,000. Liabilities equal $2,000. What is the development's current ratio?

_____ (c) In a 500 unit development, 480 were occupied at the beginning of a month, 460 at the end of a month, with 30 having become vacant during the month. What is the resident turnover ratio?

_____ (d) In a given development total income equals $50,000 per month. Expenses equal $60,000. What is the expense ratio?

ANSWERS TO SKILL-TEST:

2. (a) Responsibility budget
   (b) Program budget
   (c) Capital expenditure budget
   (d) Cash budget
   (e) Operating budget

3. (a) Painting and Redecorating Costs
   (b) Salaries and related overhead
   (c) Utility costs

4. (a) .016 or 1.6%
   (b) 2.0 or 200%
   (c) .063 or 6.3%
   (d) 1.20 or 120%

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