

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

ORIGINAL



Budgeting Procedures for Housing Managers

Participant's Workbook



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Budgeting Procedures for Housing Managers

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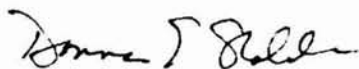
The research forming the basis for this workshop was conducted pursuant to grants between the U.S. Department of Housing and Urban Development and the five universities listed on the page of acknowledgements. Statements and information contained in this workshop are those of the grantees who assume sole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

FOREWORD

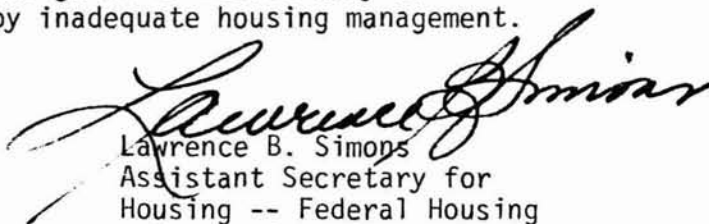
This workbook is one of eighteen in a housing-management curriculum developed by HUD in conjunction with Temple University. It is not easy. The workshops, for which this and the other workbooks are texts, will not be what we used to call Mickey Mouse sessions. And that, of course, is all to the good. Your time is valuable, and you are learning for a purpose. Any course you take should repay the efforts you must put in.

We believe that the workshops will do exactly that. At the end, after putting your new learning to practical use, you should feel not only a sense of satisfaction because of your enhanced competence, but you should also think of yourself as a housing-management professional, capable of dealing skillfully and humanely with anything the job throws at you.

Your instructor has a text similar to this one (with all the answers supplied) and a guide to conducting the workshops. The guide is a good one, stressing that the participants should be encouraged "to explore, risk, share, and feel." We hope you will. From there, and with your help, we can go on to reduce many of the serious problems brought about by inadequate housing management.



Donna E. Shalala
Assistant Secretary for
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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
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Washington, D.C. 20059

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Southern University and A & M College
Baton Rouge, Louisiana 70813

Center for Social Policy and Community Development
School of Social Administration
Temple University
Philadelphia, Pennsylvania 19122

School of Public Affairs
Texas Southern University
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Housing Management Division
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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 you to implement such a comprehensive system.

The workshop contains four main learning objectives:

- (1) You will cite three (3) useful aspects of a comprehensive budget system.
- (2) You will list the three (3) major types of budgets and define each.
- (3) You will cite three (3) important items to consider in making budget projections.
- (4) You will identify four (4) ratios used for analyzing financial data.

These learning objectives are, simply, measurable statements about the specific knowledge you 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 you 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.

GOAL AREA

TO ENABLE YOU TO IMPLEMENT
A COMPREHENSIVE BUDGET SYSTEM

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

<u>LEARNING OBJECTIVES</u>	<u>ANTICIPATED PRACTICE OUTCOMES</u>
1. You will cite three (3) useful aspects of a comprehensive budget system.	1. You will cite three (3) useful aspects of a comprehensive budget system.
2. You will list the three (3) major types of budget and define each.	2. You will examine five (5) case studies and select the most appropriate budget for each.
3. You will cite three (3) important items to consider in making budget projections.	3. You will examine an annual budget request and make three (3) suggestions for improving it.
4. You will identify four (4) ratios used for analyzing financial data.	4. You 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 & Decorating			
Appliance Repair & 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 _____
<u>Operating Cash Flow</u>	<u>Total Annual</u>	<u>Percent of GRP</u>
Gross Rent Potential (GRP)	_____	_____
Less		
Vacancy	_____	_____
Operating Expense	_____	_____
Capital Improvements	_____	_____
Real Estate Taxes	_____	_____
Debt Service	_____	_____
Bad Debt	_____	_____
Total Loss	_____	_____
Net Rental Income	_____	_____
Other Income	_____	_____
<u>Cash Flow</u>	<u>Total Annual</u>	<u>Per Unit Annual</u>
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

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

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

$$\text{Current Ratio} = \frac{\text{Current Assests}}{\text{Current Liabilities}}$$

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 assests equal \$2,000 and current liabilities equal \$1,500, the current ratio would be 1.33:

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

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

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

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.

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

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

$$\frac{10}{96} = .104 \text{ or } 1.04\%$$

4. Expense Ratio

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

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 the 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.

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Sisk, Henry L., *Management and Organization*, Cincinnati, Ohio, Southwestern 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

_____ Cash budget

_____ Capital expenditure budget

(c) Sets forth plans in terms of who must carry them out

(d) Shows anticipated planned changes in fixed assets

(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
	$\frac{(\text{No. Units}) - \text{Days Vacant/Mo.}}{(30) \times (\text{No. Units})}$	
	$\frac{(\text{Current Assets})}{\text{Current Liabilities}}$	
	$\frac{(\text{Total Units Becoming Vacant})}{\text{Average Units Occupied}}$	
	$\frac{(\text{Total Expenses})}{(\text{Total Income})}$	

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 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?

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