



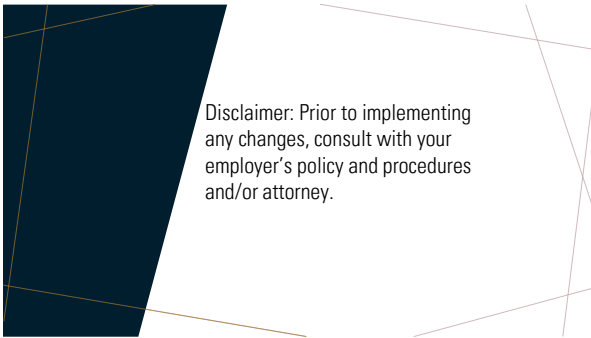
ANNUAL BUDGET

SHEYLA BATRES & LISA BETTENCOURT

47th Annual AHMA-PSW Conference & Expo
May 19 – 21, 2024



1



Disclaimer: Prior to implementing any changes, consult with your employer's policy and procedures and/or attorney.

2



Topics:
Understanding the impact
Budget practices
Final tips & takeaways

3

ACCURATE BUDGET ANALYSIS



- If available review your current budget in preparation for next year
- It is important to analyze any discrepancies between the budget and the actual operations to mitigate any negative variances

4

ACCURATE BUDGET ANALYSIS

Determine the triggering source of any shortfalls :

- Income
- Expenses
- Management

5

ACCURATE BUDGET ANALYSIS

Determine the triggering source of any shortfalls :

- Income
- *If the income is not accurate all expenses are affected*
- Expenses
- *If your property historically spend high in areas, do not cut the expenses unless a change warrants it*
- Management
- *Staffing transitions in both maintenance and the office can greatly impact the budget from ordering supplies to classing invoices to different GL codes*

6



INCOME

- Income accuracy should be conservative. The list below are easy ways to overestimate the income for the property;
- Something as simple as not deducting UAs from the max rent can inflate the anticipated income
- Not tracking floating AMIs due to deeper targeting can decrease the revenue
- Over projecting optional rentable revenue
- Not considering the vacancy average attainability
- Budgeting max rents and not considering loss to lease due to city/state restrictions

7



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Reminder: CA tenant protection act AB 1492, you may raise the rent up to 7% plus the applicable Consumer Price Index (CPI) or 5% per year 12 month period

8

Controllable variance: The difference between the actual cost incurred and the budgeted costs for a particular expense or revenue item that can be directly influenced, managed or altered by the actions of the managing agent.

Uncontrollable variance: The difference between actual and budgeted items that are caused by factors that are outside of your control or influence.

9

Controllable variance example:

Termination of PBV subsidy due to high management turnover. This potentially increases training costs, hiring costs, temporary agency costs, bad debt cost and decreases rent/subsidy collection.

A plan of action (POA) should be provided by the managing agent to reinstate the subsidy units. That POA should include who is responsible, the timeline of completion the total loss anticipated to the property and preventative strategies, so this does not reoccur.

10

Uncontrollable variance examples:

Hydro heaters circulation pumps no longer working and repairable. This impacts tenants' hot water and heat during the winter months and is considered an emergency repair. The cost is \$18k per building and the repairs were approved for (4) locations totaling \$72K.

Future budget consideration:

The plumber suggest replacements of the system as the repairs will likely hold for 2 years. The replacement cost is \$300K for all buildings at the site.

11

THE IMPORTANCE OF AN ACCURATE BUDGET

- The success of the property is determined by the ability to cashflow or meet the required debt-service coverage ratio
- If the site is unable to pay its overhead cost it will become a burden to the owners and the managing agent
- A property that is not cash flowing will place the site on a watchlist internally, with investors and owners



12



QUESTIONS:

13



COMPLETING A BUDGET

- Budget completion should be inline within your organizations and clients' requirements
- Those requirements should be a structured way to pull the current GPI coupled with any anticipated rent increases
- Suggested reporting: forecast, 12-month actual expenses, 3-year trend, budget comparison, current capital expenses
- The target debt-service coverage ratio
- Account withdrawal requirements

14



INCOME PORTION OF THE SITE BUDGET



- > THE GROSS POTENTIAL INCOME WITH ANNUAL INCREASES IS THE BASELINE OF THE INCOME PORTION OF THE BUDGET
- > ANY DEDUCTIONS FOR EMPLOYEE OR EXEMPT UNITS SHOULD BE DEDUCTED
- > CONSIDERATION OF:
 - > ECONOMIC VACANCY IS THE DIFFERENCE BETWEEN THE GROSS POTENTIAL INCOME OF THE PROPERTY AND THE ACTUAL RENTAL INCOME IT GENERATES
 - > ANY PRIOR YEAR VARIANCES SHOULD BE ASSESSED PRIOR TO COMPLETING YOUR BUDGET
 - > OVERAGE IN INCOME DUE TO HOUSING CHOICE VOUCHER COLLECTION SHOULD NOT BE INCLUDED IN YOUR BUDGET AS THIS IS AN EXCLUDED VARIABLE

15

RENTAL INCOME VARIANCE ON THE BUDGET

	Month Ending 05/31/2024				Year to Date 05/31/2024				Annual Budget
	Actual	Budget	Variance	%	Actual	Budget	Variance	%	Budget
RENTAL									
RENTAL INCOME									
Actual income	45,500.00	42,800.00	(2,700.00)	105.85%	201,200.00	195,000.00	6,200.00	103.18%	660,700.00

Rental income year to date actuals collected total \$281,293.00 the budgeted amount was \$352,972.26 variance \$71,679.26 under.

Example Comment: Subsidy payments being held due to bank accounts not set up timely, we anticipate payments in the amount of \$65,271. The remaining variance is due to vacancies

16

MONTH TO DATE AND YEAR TO DATE VARIANCE

	Month Ending 05/31/2024				Year to Date 05/31/2024				Annual Budget
	Actual	Budget	Variance	%	Actual	Budget	Variance	%	Budget
RENTAL									
RENTAL INCOME									
Actual income	45,500.00	42,800.00	(2,700.00)	105.85%	201,200.00	195,000.00	6,200.00	103.18%	660,700.00
RENTAL EXPENSES									
Maintenance & Repairs	0.00	0.00	0.00	100.00%	0.00	0.00	0.00	100.00%	0.00
Insurance	0.00	0.00	0.00	100.00%	0.00	0.00	0.00	100.00%	0.00
Utilities	0.00	0.00	0.00	100.00%	0.00	0.00	0.00	100.00%	0.00
Supplies	0.00	0.00	0.00	100.00%	0.00	0.00	0.00	100.00%	0.00
Equipment	0.00	0.00	0.00	100.00%	0.00	0.00	0.00	100.00%	0.00
Other	0.00	0.00	0.00	100.00%	0.00	0.00	0.00	100.00%	0.00
Totals	0.00	0.00	0.00	100.00%	0.00	0.00	0.00	100.00%	0.00

In the screenshot above the actuals for Carpet/Flooring line item year to date variance is \$1,683.50 with \$0 budgeted year to date. The month to date variance and year to date variance should be explained on the variance report

Example Comment: Vacant unit #7 carpet over 15 years in age we anticipate remaining budget until year end but do not expect an increase in this line item

17

ANTICIPATING COST NEEDS WITH REPORTS

Report Forecast:

1. Projects the current trend

Report 12-month actual:

1. Captures current and seasonally adjusted costs for the past 12 months also called (TIM) trailing 12 months

18

ANTICIPATING COST NEEDS WITH REPORTS

Report Forecast:

- 1. Projects the current trend
- 2. **Remove one-time expenses and annualizing periodic expenses**

Report 12-month actual:

- 1. Captures current and seasonally adjusted costs for the past 12 months also called (TTM) trailing 12 months
- 2. **Does not coincide with a calendar year budget but shows predictable increases due to seasonal changes and contract increase changes**

19

ANTICIPATING COST NEEDS WITH REPORTS

Report 3-year trend:

- 1. Captures current and potential missed cost in the past 12 months

Report Budget Comparison:

- 1. Compares current variances

Report Capital expenses:

- 1. Viewing budgeted versus actual

20

ANTICIPATING COST NEEDS WITH REPORTS

Report 3-year trend:

- 1. Captures current and potential missed cost in the past 12 months
- 2. **Can assist with capturing missed expenses or increased expenses**

Report Budget Comparison:

- 1. Compares current variances
- 2. **Investigate cost drivers**

Report Capital expenses:

- 1. Viewing budgeted versus actual
- 2. **Schedule budget items and/or increase/decrease the budget next year**

21

ANTICIPATING COST NEEDS MAINTENANCE



An exterior or interior property walk is typically completed at least annually.



The property should be always audit ready and compliant with the state and funding sources monitoring agencies.



A list of deficiencies and a timeline for the inhouse repairs should be completed during the time of the annual unit walk.



A list of exterior repairs and requirements should be completed seasonally and prepared accordingly.

22

ANTICIPATING COST NEEDS MAINTENANCE



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The property should be always audit ready and compliant with the state and funding sources monitoring agencies.

Notable:

In California, state law SB 721 requires all property owners of multi-family properties to have their exterior elevated wood-framed surfaces (in whole or substantial part or wood-based products for structural support or stability) inspected by a licensed Architect or Structural Engineer by January 1, 2025. After that, the inspection must be completed every six (6) years

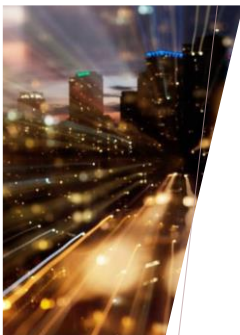


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23



DETERMINE IF PAYROLL IS SUFFICIENT

An annual review of the comparable area wages should be completed annually. Retention of staff is important and should be discussed and reviewed every budget season.

- Determine what the annual increase will be and any bonus
- Discuss the annual increase with the appropriate parties
- Compare the site payroll to the area
- Budget for the annual increase
- Once the increase is approved, implement the annual increase on time.

24

ANTICIPATING COST CHANGES

Cost changes can positively and negatively affect the upcoming budget

Positive Change Example: Tackling low hanging fruit by removing any items that are unnecessary expenses or finding a cheaper alternative. Switching to larger trash bins with less pick up decreasing the monthly cost by \$1K

Negative Change Example: The current landscapers are no longer willing to services your area at year end; after a few quotes, the cheapest landscaper is an additional \$10K a year.

Notable: *Contacting all vendors and requesting next years increases or averaging the increases from the 3-year trend is key to projecting annual cost increases and effective deto changes*

25

REVIEW THE PURPOSED BUDGET

1. Review the anticipated rents for accuracy
2. Review any low hanging fruit and determine if any non-essential items can be removed, or services reduced
3. Review your budget to determine nothing has been missed and applicable wish-list items for the site are included.



26

QUESTIONS:



27

MAINTAIN THE BUDGET

- Consistent monthly review of the budget versus the actual
 - Holding the applicable staff responsible for the controllable variances
- Regular review of the sites GL codes to ensure accurate accounting
 - Training on reclass and holding the applicable staff responsible
- Staffing transitions
 - Ensure the staff has access to complete any required reporting
 - Ensure the staff understands the financials and required reporting

28

MAINTAIN A BUDGET

- At current year end to prepare for next years budget. Have as much bad debt, write offs and current year expense, fees paid to start the year with a clean slate.
- Determine if there are any uncontrollable expenses
- Do not be discouraged, remove the unforeseeable and calculate the DSCR without it to ensure your site doesn't fall further off track.
- Remove wish list items as applicable to maintain DSCR if your site had unexpected expense.
- Remember the budget is the best guess to determine the needs of the property and we cannot predict unforeseeable expenses.
- If multiple portions of the budget are not being met track them and investigate the changes or the potential reasons for the discrepancies monthly.



29

MAINTAIN A BUDGET

- Once your budget is complete the goal is to operate reasonably within it
- Reviewing the budget with all staff that can place purchase orders
- Implement monthly recurring payables and tracking systems to ensure any variances will be tracked



30

TIPS



A BUDGET IS A BEST GUESS BASED ON THE AGE, HISTORICAL SPENDING AND KNOWN UPCOMING COSTS



ANNUAL RENEWAL CONTRACTS SHOULD BE TRACKED AND REVIEWED ANNUALLY



ALL PHONE LINES FOR EMERGENCY ELEVATORS, GATES, COPIERS AND OFFICE SHOULD BE TRACKED AND REVIEWED ANNUALLY

31

QUESTIONS:



32

THANK YOU

Sheyla Batres and Lisa Bettencourt

33
