



Public Housing Authority Financial Management Training

# Module 6: Operating and Capital Budgets





# Module 6 Topics

- **Operating Budget**
  - Purpose of the Operating Budget
  - HUD's Requirements for the Public Housing Operating Budget
  - Budget Policy & Items Submitted with Operating Budget
  - Steps in Preparing an Operating Budget
- **Operating Budget & Capital Budget**
  - Relationship between the Operating & Capital Budgets



## Module 6

# PURPOSE OF THE OPERATING BUDGET





# What is an Operating Budget?

- An operating budget is a realistic forecast of the next fiscal year's operating results and is a combination of known and estimated income and expenses for the future year
- An approved operating budget:
  - Shows management's priorities and expected goals and outcomes through various line items
  - Provides authority to incur expenses
  - Acts as a control and monitoring device (actual financial performance can be compared to the budget)
- Example: PHA budgets \$200,000 in tenant rent. Additional information:
  - Expected occupancy rate should be no less than 95%
  - Long-term vacant units should be put back on-line
  - Authorization of contract funding to fix long-term vacant units





# Why Prepare an Operating Budget?

- HUD requires PHAs to prepare an operating budget for the **public housing program**. The operating budget must be approved by the PHA's Board
  - While not required by HUD, PHAs are strongly encouraged to prepare operating budgets for all programs that are administered by the PHA (for example, Housing Choice Voucher, Rural Development, etc.)
- **Operating Budget:**
  - Helps ensure that the PHA remains financially healthy
  - Serves as a tool to monitor and project the future financial performance of the PHA's projects and programs
  - Helps the PHA allocate resources appropriately and highlight the areas that need improvement



## Module 6

# **PUBLIC HOUSING OPERATING BUDGET & HUD REQUIREMENTS**





# Public Housing Operating Budget Requirements

- HUD requires PHAs to prepare and maintain operating budgets for every project in a way that allows for the comparison of budgeted line items to actual revenues and expenses
- The budget, prepared by the PHA, is reviewed and approved by the Board of Commissioners by resolution. The resolution should be submitted to the local field office
- Budgets are not subject to HUD approval, except in cases of non-performance





# Public Housing Operating Budget Requirements (continued)

- The budget must include:
  - Reasonable estimates for all revenue and expenses under the Operating Fund and Capital Fund Programs (CFP) that directly or indirectly support the operations of the project
  - Revenue used to support the projects including Operating subsidy, dwelling rents, Capital Fund grants used for operations, and other revenue sources
  - Expenses to be paid with Operating Subsidy funds such as direct administrative costs, utilities, maintenance, security, general expenses, and non-routine or capital expenses







# Public Housing Operating Budget Requirements (continued)

- The budget must:
  - Reflect expected transfers and anticipated uses of excess cash
  - Include Capital Funds that will be used for:
    - Operations (BLI 1406),
    - Management improvements (BLI 1408), and
    - Administration (BLI 1410) (normally shown on a CFP operational budget)
  - Be easily reconciled to the Financial Data Schedule (FDS)



## Module 6

# **BUDGET POLICY & OPERATING BUDGET SUPPORTING MATERIALS**





# Budget Policy

- All PHAs should have a Budget Policy and associated procedures
- The Budget Policy should address the following:
  - What programs are required to have an operating budget
  - Who is to be involved in the budget process
  - Who is expected to provide information
  - General time frame / schedule for the annual adoption of the budget
  - The requirement for Board approval before the start of the fiscal year





## Budget Policy (continued)

- Best practices would have the Budget Policy or procedures also address the following items:
  - PHA decision to allow or not allow a non-balanced budget (net loss)
  - Limitations not to incur costs beyond the approved budget, unless in cases of emergencies
  - Documentation required to support the budget (i.e., budget assumptions, schedule of positions, and initiatives)
  - Board approval or ED discretion to hire new staff / back fill positions / create new positions



# Budget Policy – Revisions

- **Emergencies**
  - A budget revision is required for an emergency. The operating budget will be revised as soon as possible to reflect the costs associated with the emergency
- **Revenue**
  - Lower revenue may result in the need for a budget revision to reduce expenses
  - Budget revisions also should be required for use of reserves and transfers of monies (i.e., CFP to operations, project to project, etc.)
- **Material Financial Impact (Best Practice)**
  - Regardless of the amount, the budget should be revised for transactions that will materially impact the financial feasibility or considerably alter services / expected results of the project or program
    - For example, a budget revision should be approved for a much lower than expected HAP funding level which will require the PHA to stop issuing any vouchers, using most or all of its program reserves, and possibly being in a shortfall position
    - A material financial impact policy helps ensure that everyone understands the financial issue





# Budget Policy – Revisions (continued)

- Expenses
  - The approval of the budget allows for the PHA to incur costs up to the approved amount. What does that mean?



# Budget Policy – Revisions (continued)

Partial Budget Presented to Board	Amount
Administrative salaries	100,000
Auditing fees	5,000
Advertising and marketing	1,000
Employee benefits - administrative	35,000
Office expenses	15,000
Legal expenses	1,000
Travel	5,000
Other admin.	8,000
<b>Total Administrative</b>	<b>170,000</b>
Maintenance labor	70,000
Maintenance materials	20,000
Maintenance contracts	40,000
Employee benefits - maintenance	20,000
<b>Total Maintenance</b>	<b>150,000</b>
<b>.... Other Budget Items</b>	<b>40,000</b>
<b>Total Operating Expenses</b>	<b>360,000</b>

- ← • Budget policy should define when a revision is needed for expenses, e.g.,
  - All shown line items
  - Certain line items
  - Sub-totals
  - Total
- ← • Without a revision policy that addresses this matter, a budget revision is required at the line item level of the budget that was approved by the Board
- ← • Possible policy language: “A budget revision is required when the total operating expenses (or line items marked as significant) is greater than 2% or more of the approved annual budget”





# Items Submitted with Operating Budget

- Operating Budget
- Budget Justification and Assumptions
- Supporting Schedules and Calculations
  - Schedule of Positions and Salaries
  - Calculations Supporting Other Major Revenue and Expense Items
  - Schedule of Nonroutine Expenditures and Initiatives





# 1. Budget Justification and Assumptions

- Allows the PHA to provide explanations and notes of budgeted line items, including basic calculations and assumptions used in determining the line item amount
- Facilitates the discussion of the budget between the project manager, the Executive Director, PHA's Finance staff and the Board
- Documents budget process and expectations





# 1. Budget Justification and Assumptions – Example

- **CFP for Operations (BLI 1406)** – Historically, the PHA budgets 20% of the CFP grant to be used to support project operations, specifically BLI 1406. No CFP funds have been budgeted as the expected loss could be absorbed through the use of operating reserves and inter-project transfers; leaving 100% of the CFP funds available for modernization and other capital projects
- **Training and Travel** – Training and associated travel costs have been increased by \$2,400 per person (Administrative and Maintenance staff) which aligns to the PHA’s goal to further invest in staff skills





## 2. Schedule of Positions and Salaries

- Created for positions not employees
- Consists of a list of each position and the costs related to the individual project/program
- Costs are split between programs and projects as necessary
  - These costs can further be broken out into administrative, maintenance, protective services and tenant services, as necessary
- Includes shared staff and centralized front-line staff



## 2. Schedule of Positions and Salaries – Example

Administrative Positions	Total Salary Base, OT & Standby	0% Increase	Project 001	Project 002	Project 003	COCC	Section 8
Executive Director	109,800	109,800	0	0	0	109,800	0
Accountant Supervisor 1	59,583	59,583	0	0	0	59,583	0
Fac. Maint. Manager A	54,015	54,015	0	0	0	54,015	0
Admin Assistant 4	36,807	36,807	0	0	0	36,807	0
Human Resource Analyst A	36,551	36,551	0	0	0	36,551	0
Housing Mgr. A	39,689	39,689	0	0	0	0	39,689
Housing Inspector 1	30,763	30,763	0	0	0	0	30,763
Administrative Coord. 2	24,502	24,502	0	0	0	0	24,502
Housing Specialist 3	32,053	32,053	0	0	0	0	32,053
Housing Inspector 1	30,763	30,763	0	0	0	0	30,763
Housing Specialist 3	27,040	27,040	0	27,040	0	0	0
Housing Specialist 3	27,040	27,040	27,040	0	0	0	0
Housing Specialist 3	27,040	27,040			27,040	0	0
Housing Specialist 3	25,418	25,418	4,321	7,879	13,217	0	0
Administrative Coord. 2	26,478	26,478	4,501	8,208	13,769		0
Housing Supervisor	38,782	38,782	0	38,782	0		0
Total			35,862	81,909	54,026	296,755	157,770

Table shows a partial schedule, does not show all staff or benefit load. The schedule should identify positions not currently filled (i.e. new hires) and known staff retirements.





### 3. Calculations Supporting Other Major Revenue and Expense Items

- Provides detail support on how major revenue and expenses were determined, including assumptions used
  - Examples include operating subsidy, tenant rent, HAP revenue and expense
- Not all budget line items warrant detailed support
  - Example of budget line item codes
    - Calc. – Supporting calculation has been developed to support amount
    - TB – Historical data used as basis for amount (i.e., prior year and current year trial balance and Financial Data Schedule) can include inflation factor / be based on average, etc.)
    - PM – Property / Project Manager developed new estimate; historical data no longer valid
    - N/A – Budget line item not needed (expected to be zero)





### 3. Calculations Supporting Other Major Revenue and Expense Items - Examples

Line Item	Line Description	Code	Amount
94100	Labor	Calc	\$59,670
94500	Employee Benefits- Maintenance	Calc	\$20,976
94200	Maintenance Materials – CFP	PM	\$0
94200	Maintenance Materials	TB	\$28,065
94300	Contracts – Garbage & Trash Removal	TB	\$30,771
94300	Maintenance – Maint. Temp Services	Calc	\$30,000
94300	Maintenance – Vehicle Maintenance	TB	\$671

Supporting Calculations			
Project	Project 001	Project 002	Project 003
ACC Units	102	174	292
Current Average Rent	\$174	\$162	\$184
Occupancy Goal	95%	90%	98%
Gross Potential Rent	\$213,153	\$338,341	\$646,122
Vacancy Loss	(\$10,658)	(\$33,834)	(\$12,922)
Net Rental Revenue	\$202,496	\$304,507	\$633,199





## 4. Schedule of Non-routine Expenses and Initiatives

- Lists all non-routine and capitalized “operational” costs that will be incurred during the fiscal year of the project:
  - All “minor” capital items that support operations (such as a printer, desk, copier, lawn mower, drill) whether funded by operations or Capital Funds
    - Larger or major capital activity should not be budgeted on the project’s Operating Budget
  - Costs related to the extraordinary maintenance (if possible to determine)
  - Estimated one-time expenses, such as hiring a contractor for a short period of time in the following year to help with unit turnaround



## 4. Schedule of New Initiatives and Non-Routine Expenses – Example

#	New Initiatives/Non-routine	Justification	Budget	Estimated Cost
1	Equipment for Ground Maintenance (1 Chain Saw)	Maintenance is in need of equipment to trim bushes and trees at the property.	Operating	\$350
2	Jet Router (Maintenance Equipment)	Sewer back-up are common and property does not have a Jet Router. Therefore, the project must borrow this piece of equipment from another property causing delays in completing the work order or must call a plumber	Operating	\$5,000
3	Hire 1 Maintenance Staff (MR1)	Hire one maintenance staff	Operating	\$33,000
4	Repair of sidewalks	Sidewalks are in need of repair. Sidewalk repair will be completed via contract.	Operating	\$4,500
5	Tenant Parking	Non-residents are parking at the property resulting in residents not having a parking space or parking on the lawn. Restripe parking areas, require car tags, enforce towing	Operating	\$3,750
6	Replace Top/Bottom Cabinets and Counter Tops – all units/on a follow basis	Units should be updated with central air at both properties. Roofing concerns also exist at both sites	CFP	N/A
		<b>Total – New Initiatives</b>		<b>\$43,180</b>



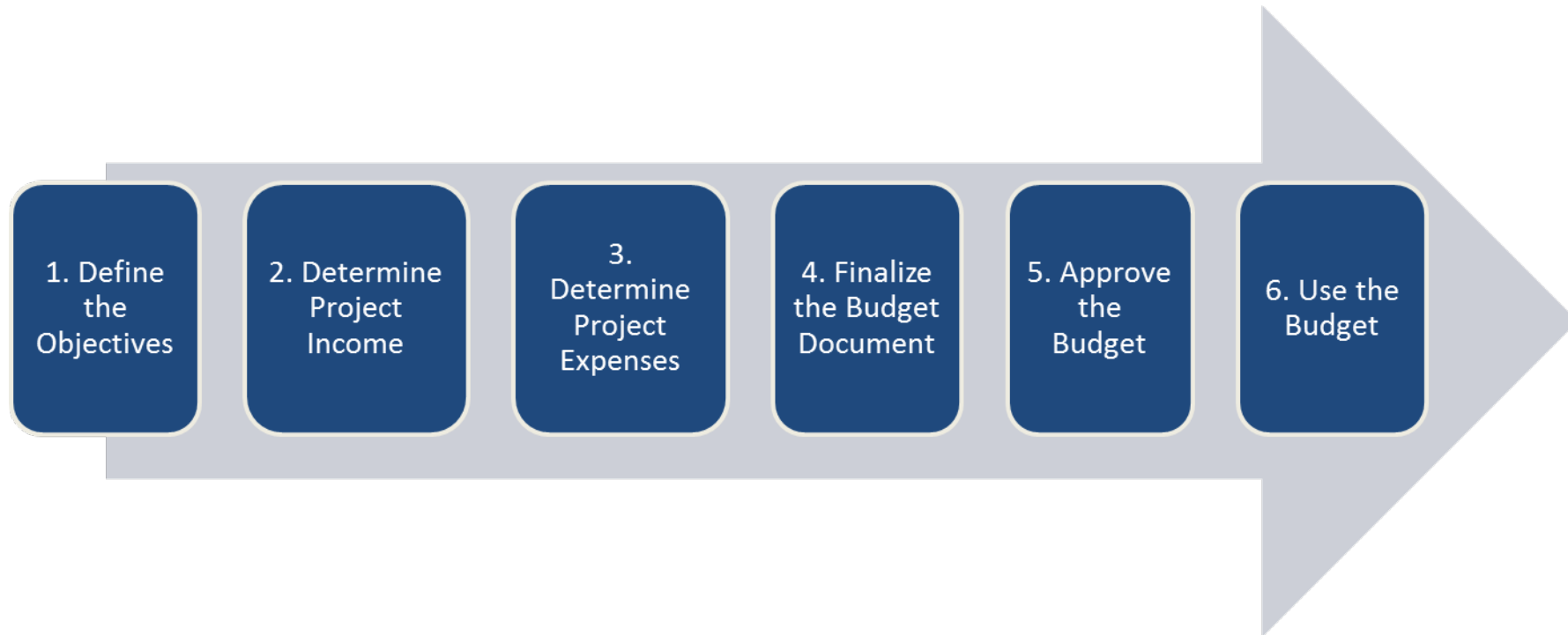
## Module 6

# STEPS IN PREPARING AN OPERATING BUDGET





# Budget Planning Steps





# Step 1 - Define the Objectives

- Objectives should be determined and communicated prior to the start of the preparation of the budgets (What are the Board's and senior management's goals?)
- Objectives and strategic goals that should be communicated includes such items as:
  - New or changes in initiatives
  - Types and extent of services to be provided
  - Target occupancy / utilization rates
  - Profit margin to be generated
  - Use of funds for specific purposes
  - Determination of an adequate safety net
  - Security needs
  - Maintenance needs
  - Capital needs
- Determine if there should be major changes to the programs' service delivery model (e.g., staffing level, services, contracts, use of reserves and CFP funds)



## Step 2 - Determine Project Income

- Revenue sources can be divided into the following categories:
  - Revenue calculated by the central office (PHA's accounting / fee accountant)
  - Revenue calculated by the project / program managers

Central Office (PHA Accounting / Fee Accountant)	Project / Program Manager
1. Operating Subsidy	1. Dwelling Rent
2. CFP to Support Operations <ul style="list-style-type: none"><li>• BLI 1406 Operations</li><li>• BLI 1408 Management Improvements</li><li>• BLI 1410 Administration</li></ul>	2. Other Tenant Charges
3. Interest Income	3. Other revenue (i.e., laundry receipts)
4. Eligible Transfers / Use of Reserves	



## Step 3 - Determine Project Expenses

- Estimate of expenses for the following year should include the following steps:
  - Update and review budget support schedules (i.e., salary and position schedule)
  - Analyze current and prior year(s) reported expenses
  - Determine the impact of the new objectives and identified goals
  - Determine how current initiatives / policy changes will impact the upcoming budget (e.g., EPCs, vacancy reduction efforts, utility allowance schedules, etc.)
  - Review the contract costs and determine estimated future costs
  - Contact utility companies to determine whether utility rates are increasing
- Some expenses should be provided by finance and other expenses by project/program managers



## Step 4 - Finalize the Budget

- Large cash disbursement items, such as payroll and property insurance, should be analyzed to verify that there is sufficient cash balance at the time of payment
  - The budget should be allocated to the months in which the revenue and expense is expected to occur (i.e., certain activity and costs are seasonal or are scheduled)
- Depending on the circumstances, a project budget does not have to “break even”
- The following funding sources can be considered by senior management to cover the deficit: project reserves; Capital Funds; and excess cash transfer from other projects
- Senior management, including project and program managers, should review the budget for consistency between the projects, for reasonableness, and to verify that objectives have been met



## Step 5 – Approve the Budget

- At this point the budget is finalized and can be taken to the board for approval
- Once the budget is approved by the Board, the PHA may incur costs as prescribed



## Step 6 - Use the Budget

- The budget now becomes a monitoring tool, with budget to actuals to be reviewed every month, variances analyzed, and corrective action made as necessary





# Budget Preparation Responsibilities

Seq	Responsibility	Accounting/ Finance	Project/Program Manager	Board, ED, Asset Manager
<b>1</b>	Define the objectives of the operating budget	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> <li>Set goals and priorities</li> </ul>			<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> <li>Conduct meetings to outline the financial and operational goals of each project</li> </ul>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> <li>Develop a schedule to identify the due dates for budget preparation</li> </ul>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<b>2</b>	Determine project income	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
	<ul style="list-style-type: none"> <li>Calculate operating subsidy</li> </ul>	<input checked="" type="checkbox"/>		
	<ul style="list-style-type: none"> <li>Project dwelling rent, other tenant charges, and vacancy loss</li> </ul>		<input checked="" type="checkbox"/>	
<b>3</b>	Determine project expenses	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<b>4</b>	Review and finalize the operating budget	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> <li>Schedule and conduct meeting to review the draft budget</li> </ul>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> <li>Present the operating budget to the Board of Commissioners</li> </ul>			<input checked="" type="checkbox"/>
<b>5</b>	Use the Operating Budget	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

## Module 6

# OPERATING AND CAPITAL BUDGETS





# Capital Budgets

- Capital Budgets are used to plan for needed capital outlays, modernization and large equipment purchases which will benefit the project over a number of years
- For most PHAs, capital budgets are normally associated with the Capital Fund grant
- PHAs need to consider their long-term Capital Plan when creating the Operating Budget because there can be a relationship between the Operating and Capital Budget



# Relationship Between the Operating and Capital Budgets

#	Operating/Capital Event that Impacts the Other Budget
1	Delay in planned modernization which would result in increased work orders (i.e., increase to maintenance expense – Operating Budget)
2	Reduction in CFP grant funds resulting in planned modernization re-scoped to a much lower level which would result in increased work orders (increase to maintenance expense – Operating Budget)
3	Reduction in CFP grant funds resulting in CFP funds that are reprogrammed from CFP to Operations (BLI 1406) to capital activity (reduction in overall operating budget expenses)
4	Demolition, disposition, reconfiguration of units which would have units offline resulting in a decrease in work orders (i.e., do not fix items that will be replaced) (decrease to maintenance expense – Operating Budget)
5	Completion of energy conservation initiatives (decrease in utility expenses – Operating Budget)
6	Continued deferral of maintenance items (increase to Capital Budget)
7	Long-term vacancies (increase Capital Budget to put units back on line and reduce overall Operating Budget expenses due to resulting reduction of revenue)



# End of Module

**This Ends the Training Module on  
Operating and Capital Budgets**





Public Housing Authority Financial Management Training

# Learning Activity 5: Preparing an Operating Budget





## **This Ends the Solutions to Learning Activity 5: Preparing an Operating Budget**

- The Anywhere Housing Authority (AHA) is preparing their operating budget for next year
- You are a member of AHA's staff and have been asked to help formulate some of the budget figures
- Specifically, you have been asked to develop budget estimates for tenant rental revenue, coin laundry receipts, snow plowing services, and a new initiative to improve the curb appeal of the PHA's properties



## **Learning Activity 5: Preparing an Operating Budget – Instructions**

- When you are ready to complete this learning activity, download and print – **Learning Activity 5: Preparing an Operating Budget**
- Then read the background information for each question on pages 2 through 4 of the document and answer the associated questions
- After answering the questions, return to the video for the answers and explanations





# End of Learning Activity 5

**This Ends Learning Activity 5:  
Preparing an Operating Budget**





Public Housing Authority Financial Management Training

# Learning Activity 5: Solutions to Preparing an Operating Budget





## Goal of Learning Activity 5

- Prepare a short and long-term strategy for an underperforming project
- Highlight the need
  - For a fact gathering process prior to the development of options
  - To weigh those options
  - To develop an overall strategy
- Many possible solutions



## Solution to Question 1a:

**Question 1a: Tenant Rental Revenue - What are the key budget assumptions / targets that you need to decide to make a budget estimate for tenant rental revenue?**

### Answer

- The key budget assumptions and targets are the number of units that will be leased in the budget year (number of units and occupancy rate) and average monthly rent per unit
- Based on the information provided, there is no reason to believe that using \$280 as the average per unit per month rent for the upcoming year is not reasonable
- Our budget estimate assumes a 95% occupancy rate, having AHA procure the services of a firm to modernize the units and help turn any unit that is offline when the contract starts. The 95% occupancy assumption reflects that it will take time to get these six units online, and represents a low occupancy rate at the beginning of the year and higher occupancy rate towards the end of the year, which would average to 95%





## Solution to Question 1b:

**Question 1b: Tenant Rental Revenue - Using your budget assumptions, calculate the gross potential rent, vacancy loss, and net tenant rent for the upcoming operating budget year?**

### Answer

Budget Line Item	Amount
Gross Potential Rent	\$336,000 ( $\$280 * 100 \text{ units} * 100\% \text{ occupancy} * 12 \text{ months}$ )
Net Tenant Rent	\$319,200 ( $280 * 100 \text{ units} * 95\% \text{ occupancy} * 12 \text{ months}$ )
Vacancy Loss	(\$16,800) ( $\$336,000 \text{ (gross potential)} \text{ minus } \$319,200 \text{ (net tenant revenue)}$ )





## Solution to Question 2a:

**Question 2a: Coin Laundry Receipts - What are the key budget assumptions that need to be decided to budget coin laundry receipts?**

### Answer

- The key budget assumptions relate to changes in usage and cost per load
  - Is there a reason to assume that the usage of the laundry facility will materially increase or decrease from historical usage?
  - Is AHA going to increase the cost per load?
  - Are there seasonal differences or other reasons that would dramatically affect when clothes are washed?





## Solution to Question 2b:

**Question 2b: Coin Laundry Receipts - How much should be budgeted for laundry fees, both annually and per month in next year's budget?**

### Answer

Budget Line Item	Amount
Laundry Receipts per Year	\$3,600 (bases on historical actuals)
Laundry Receipts per Month	\$300 (\$3,600 / 12 months)

- Based on the information provided, it is reasonable to believe that using the past year's actual receipts of \$3,600 will provide a reasonable estimate
  - AHA is not doing anything that indicates usage of the laundry facility will change
  - AHA is not increasing or decreasing the cost per load
- The amount per month of expected coin laundry receipts is \$300 and is determined by taking the annual budget of \$3,600 and dividing by twelve months





## Solution to Question 3a:

**Question 3a: Snow Plowing Services - What other information should be provided with the cost estimates to determine a budgeted amount for snow plowing?**

### Answer

- While the contract cost estimates provide a range of possible costs, the usefulness of these amounts are limited. No information is provided that can help evaluate the amounts
- This lack of information illustrates that budget estimates are a combination of distinct variables that must be considered and simply using historical numbers may not properly consider changes in the variables
- For this learning activity, since we have no other information, we have chosen the budget estimate of \$6,000, the middle cost estimate provided





## Solution to Question 3b:

**Question 3b: What are the key budget assumptions / targets that you need to decide to budget snow plowing services?**

### Answer

- Snow plowing will occur only in cold (winter) months
- How many plowings will likely be needed
- What is the cost per plowing



## Solution to Question 3c:

**Question 3c: Snow Plowing Services - How much should be budgeted for snow plowing services, both annually and per month, if AHA goes forward with the decision to contract out for snow plowing services?**

### Answer

Budget Line Item	Amount
Snow Plowing Contract per Year	\$6,000 (the middle cost estimate)
Snow Plowing Contract per Month	\$1,000 for the months of October through March (six months)





## Solution to Question 3d:

**Question 3d: Snow Plowing Services - Are there other line items in the budget impacted if AHA goes forward with the decision to contract out for snow plowing services?**

### Answer

- **Salary and Wages**
  - Cost switch would not likely result in lower maintenance salary and benefit costs associated with the normal work week
  - Overtime/on call/part time employee costs could possibly decrease
- **Other**
  - Certain snow removal assets could be sold
  - PHA would not have to invest in maintenance equipment
  - Gas and insurance costs may be reduced





## Solution to Question 4a:

**Question 4a: Curb Appeal - What is an approach and the budget assumption(s) needed in order to develop a cost estimate?**

### Answer

- Determination of the scope of the project
- How will the work be completed and impact on current resources
- Cost of the project, including ongoing maintenance costs





## Solution to Question 4b & 4c:

**Question 4b: Curb Appeal - How should this initiative be presented in the budget for the Board?**

### Answer

- Via a brief write up in the budget assumption document that discuss the costs, the scope of work, and the line item(s) that the costs are reflected in

**Question 4c: Curb Appeal - Would the Board be able to monitor this activity through the current Board package material?**

### Answer

- No - Most budgets and income statements do not provide sufficient detail to specifically monitor a landscaping activity





# End of Learning Activity 5 Solutions

**This Ends the Solutions to Learning Activity 5:  
Preparing an Operating Budget**

