Operating Budget/CRR
OVERVIEW – ANNUAL BUDGET

- **Purpose of Annual Budget**
  - Outlines the project’s direction and scope of work for the fiscal year
  - Establishes the annual benchmark from which the RCI Asset Manager and PPD PM assess project performance
  - Full Disclosure on project matters and information
  - Resolve any areas of concern

- **Roles & Responsibilities**
  - Service Providers prepare draft Annual Budget (Aug/Sept timeframe)
  - Managing Member (Partner) refines/approves draft Annual Budget
  - RCI Asset Manager and PPD Program Manager concurrently review the draft Annual Budget
  - Managing Member finalizes Annual Budget
  - ACSIM and Managing Member approve / disapprove Final Annual Budget (Higher Authority Major Decision)
  - Final Budget with updated BAH rates provided to ACSIM (PPD)
BUDGET PROCESS

- **Role of RCI Asset Management Team**
  - Review of overall project performance, financial indicators, and property condition to focus on areas for improvement
  - Review and evaluate previous budget goals, objectives, and actual performance
  - Understand allocation methodologies for expenses (especially utilities or other “Services”)
  - Meet with Garrison Commander to discuss issues/expectations
  - Understand strategy behind the budget decision being proposed

- **Interaction between Managing Member and RCI Asset Management Team and PPD PM**
  - Open communication in a collaborative manner
  - Open book process; all back-up information should be provided
  - Define clear, logical and consistent objectives to improve performance

- Focused on specific items needing improvement (turnovers, service order response time, etc.)
Role of PPD PM
- Overall approval authority for operating and “standard” CRR budget
- To provide additional insight and feedback on the perspective gained…
  - From reviewing the Partner’s other projects
  - From reviewing the entire RCI portfolio
  - From lessons learned

Additionally:
- PPD meets with each Partner in Sep/Oct to complete portfolio level discussion on budgets to include:
  - Corporate/Project Initiatives
  - Current organization chart/corporate allocations
  - Trends by project, partner, portfolio
  - Annual CRR
BUDGET PROCESS

- Budget Development
  - Start early
  - Talk to GC about plans/expectations/other
  - Define timeline and brief RCI Asset Management Team
  - Significant Internal (Corporate) Review
  - If major changes are planned involve RCI Asset Manager and PPD PM early

- Submission
  - Should be consistent among each Partner’s projects
  - Assumptions, variances, and strategy should be explained
  - On Time

- Collaboration
  - Must have open communication at all levels
  - If Major Decision is triggered then needs to be a separate action
Evaluating Sustainment Risks

• Once IDP is closed, projects enter the sustainment phase
  – Focus on capital planning (roofs, appliances, infrastructure, etc.)

• CR&R Account funded monthly with project cash flow
  – Reinvestment funds may also be used for sustainment needs

• Original CR&R plans were narrowly defined
  – Most are seriously underfunded at roughly $300/unit/year
  – Typical of a 20 year investment horizon, not 50 year sustainment
  – Primary focus on appliances, floor coverings, AC units
  – A few had roofs and infrastructure
  – Reinvestment is presumed to do the heavy lifting

• CR&R Assessment is used to proactively identify risks
  – Becomes the basis of budget discussions with Partner
How Far Does $300/yr Go

- Not far
  - Fails to fund basic needs
- Nothing for
  - Community facilities
  - Site infrastructure
  - Interior finishes
  - Exteriors & roofs
  - Equipment & vehicles
- We model all items for
  - Comprehensive picture
  - Reinvestment risk
  - Near term exposures
- Shaded items > $750
  - Double typical deposits

Annual CR&R Cost Examples

<table>
<thead>
<tr>
<th>Item</th>
<th>Avg Life</th>
<th>Cost</th>
<th>Cost/yr</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appliance Package</td>
<td>10</td>
<td>1,500</td>
<td>150</td>
<td>150</td>
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<tr>
<td>Water Heater</td>
<td>10</td>
<td>650</td>
<td>65</td>
<td>215</td>
</tr>
<tr>
<td>AC Condensor</td>
<td>12</td>
<td>1,500</td>
<td>125</td>
<td>340</td>
</tr>
<tr>
<td>Carpet</td>
<td>7</td>
<td>1,400</td>
<td>200</td>
<td>540</td>
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<tr>
<td>Roof</td>
<td>25</td>
<td>5,400</td>
<td>216</td>
<td>756</td>
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</tbody>
</table>

Unit Elements

<table>
<thead>
<tr>
<th>Site &amp; Common Elements</th>
<th>Unit Elements</th>
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<tbody>
<tr>
<td>Carpets (Sqft)</td>
<td>Exterior Paint/Pressure Wash</td>
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<tr>
<td>Vinyl Flooring</td>
<td>Exterior Wood Trim Repair</td>
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<tr>
<td>Roofing</td>
<td>Windows</td>
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<tr>
<td>Heat Pumps</td>
<td>Smoke Detectors</td>
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<tr>
<td>Air Handlers</td>
<td>Bathroom Exhaust Fans</td>
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<tr>
<td>Exterior Condensor(HVAC)</td>
<td>Light Fixtures</td>
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<tr>
<td>Water Heaters</td>
<td>Plastic Lam Counter Tops</td>
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<tr>
<td>Refrigerators</td>
<td>Kitchen Cabinets</td>
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<tr>
<td>Ranges/Oven</td>
<td>Faucets/Sinks/Fixtures</td>
</tr>
<tr>
<td>Dishwasher</td>
<td>Garage Door Openers</td>
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<tr>
<td>Disposals</td>
<td>Garage Doors</td>
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<tr>
<td>Range Hood</td>
<td>Plumbing</td>
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<tr>
<td>Microwave Oven</td>
<td>Fencing (Chain Link)</td>
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<tr>
<td>Interior Doors/Hardware</td>
<td>Blinds</td>
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<tr>
<td>Bathroom Vanities</td>
<td>Exterior Doors</td>
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<tr>
<td>Bathtub Surrounds</td>
<td>Storm Doors</td>
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<tr>
<td>Medicine Cabinet</td>
<td>Premium Finishes in SO Units</td>
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- Not far: Fails to fund basic needs
- Nothing for: Community facilities, Site infrastructure, Interior finishes, Exteriors & roofs, Equipment & vehicles
- We model all items for: Comprehensive picture, Reinvestment risk, Near term exposures
- Shaded items > $750: Double typical deposits
What Does Sustainment Require

- $1500-$1600 per year for 2 recent evaluations
  - Current dollars and neutral regional cost factors
- Details vary but general results are similar
- Need strategy to cover all sustainment needs
  - Reinvestment funds provide relief, but may not arrive in time
Why is This Not a Problem Today

- **CR&R spends are lumpy**
  - Not yet replacing components
  - Still in honeymoon phase

- **Large project example**
  - 1430 homes 6 year IDP
    - 1051 new
    - 148 legacy
    - 231 historic renovations

- **Component replacements**
  - Near term needs very limited
  - Flooring coming in 2 years
  - Refrigerators in 7
  - Will level over time
  - But not at current levels

- **Bottom line** – SAVE CR&R $
Typical Findings

• **Long-term (next 40 years)**
  – Reinvestment funds will need to close sustainment gaps
  – Reinvestment plans will be impacted

• **Mid-Term (next 10 years)**
  – Projects failing to save for coming needs
  – First cycle replacements hit in next 5-10 yrs
  – Limited reinvestment avail to offset needs

• **Some projects are more challenged**
  – Most reinvestment used to fund sustainment
  – Projects may have shortfalls if there are significant numbers of legacy units
  – Home replacements and major renovations deferred until very late in the lease term
  – Requires strategies to prolong life of homes for long term marketability
What Does This Mean for You?

- **Develop out-year planning with a robust sustainment model**
  - Ensure all parties recognize sustainment needs over next 5-10 years
  - Set realistic expectations for timing of major renovations or replacements

- **Transform information into action thru budget process**
  - Identify which sustainment needs fund thru Opex, CR&R or Reinvestment
  - Ensure budget discussions address all 3 areas of funding

- **Focus specifically on components of the housing inventory**
  - Look past honeymoon period
  - Address period of maximum stress
  - Focus on renewal components
  - Discuss specific inventory challenges
  - Drive savings function in CR&R plans

![Cumulative Near Term Sustainment Needs vs. Available Sources](chart.png)
Budget Timeline

Submission IAW Project Operating Agreement

- Budget Due 1 Oct – 15 Nov
- ACSIM Review 1 Oct – 4 Dec
- Budget Comment Responses due to ACSIM NLT 11 Dec
- ACSIM Budget Approval NLT 18 Dec
- GC Approved Budget NLT 31 Dec
- Final Approved budget to DA with updated BAH rates NLT 15 Jan
Summary

- Ensure all parties have a good understanding of the assumptions behind the budget

- Out-of-Pocket may impact BAH rates; particularly at isolated locations or locations where military drives housing demand

- Almost all RCI projects have entered/will enter the sustainment phase

- Partner needs to have a reasonable CRR plan which is funded

- All stakeholders need to focus on the medium-long term horizon