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Operating Budget/CRR

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AGENDA

- Overview
- Budget Process
- Sustainment/CRR
- Summary





Why?



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.)



BUDGET PROCESS

- 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
 - Should match approved pro forma
 - 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



Tenants

A day in the life



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
 - Original investment limited to maximize debt
 - 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

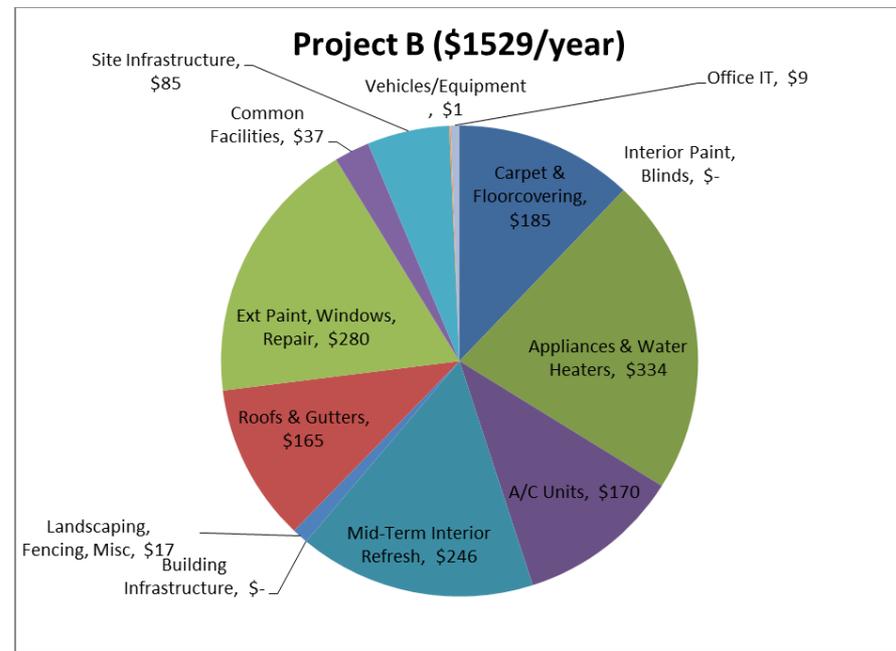
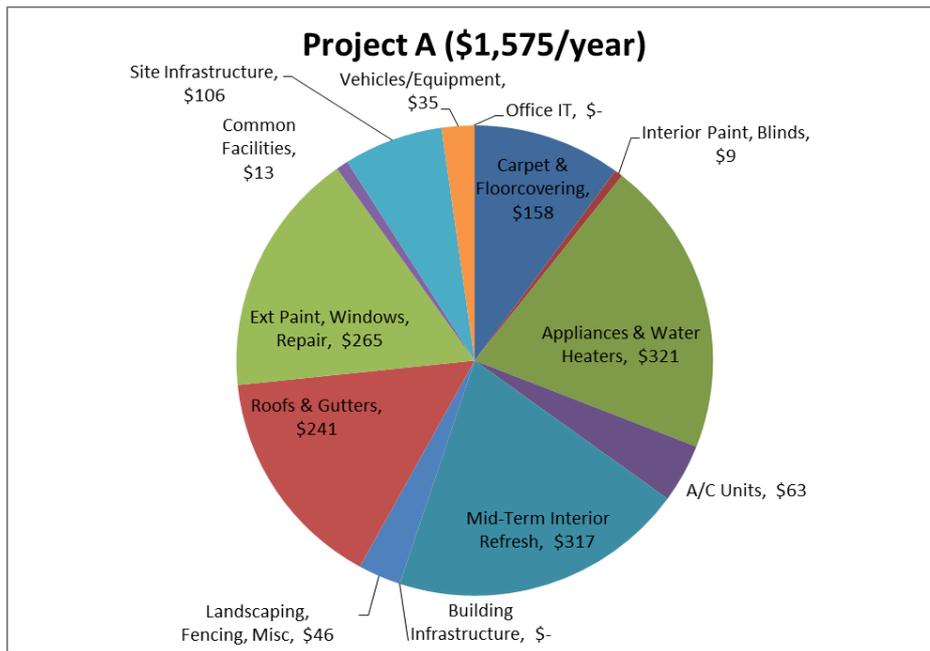
Annual CR&R Cost Examples				
Item	Avg Life	Cost	Cost/yr	Cumulative
Appliance Package	10	1,500	150	150
Water Heater	10	650	65	215
AC Condensor	12	1,500	125	340
Carpet	7	1,400	200	540
Roof	25	5,400	216	756

Unit Elements		Site & Common Elements
Carpets (Sqft)	Exterior Paint/Pressure Wash	Playground Equipment
Vinyl Flooring	Exterior Wood Trim Repair	Tennis/Basketball Courts
Roofing	Windows	Landscaping/Tree Removal
Heat Pumps	Smoke Detectors	Street Sealing/Overlay/Repair
Air Handlers	Bathroom Exhaust Fans	Sidewalk & Curb / Gutter
Exterior Condensor(HVAC)	Light Fixtures	Street Sewer
Water Heaters	Plastic Lam Counter Tops	Water Mains/Laterals/Hydrants
Refrigerators	Kitchen Cabinets	Electrical Feeders/Transformers
Ranges/Oven	Faucets/Sinks/Fixtures	Gas Distribution
Dishwasher	Garage Door Openers	Storm Drains
Disposals	Garage Doors	Bus Shelters
Range Hood	Plumbing	Pool Plaster/Deck/Equipment
Microwave Oven	Fencing (Chain Link)	Common Areas/Fields
Interior Doors/Hardware	Blinds	Community Center
Bathroom Vanities	Exterior Doors	Maintenance Center
Bathtub Surrounds	Storm Doors	Fitness Center Equip & Furnish
Medicine Cabinet	Premium Finishes in SO Units	Vehicles & Equipment/IT



What Does Sustainment Require

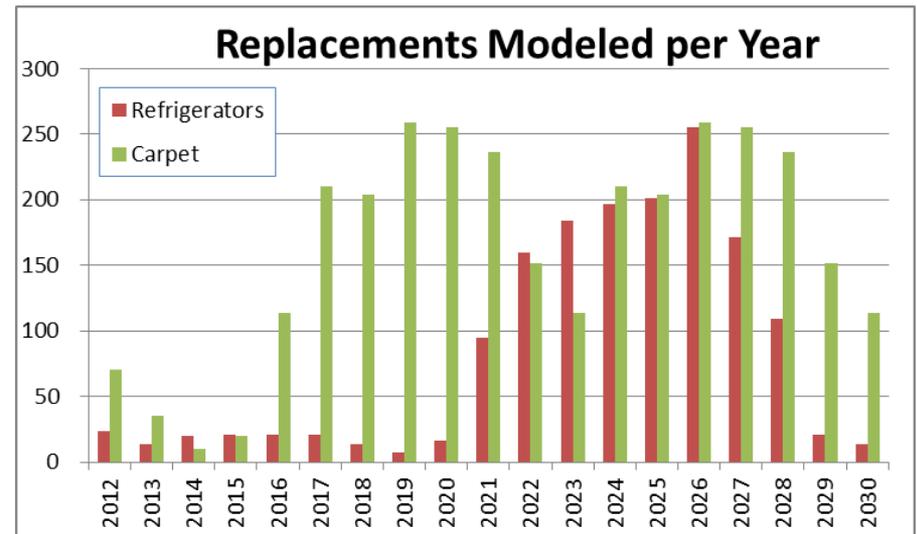
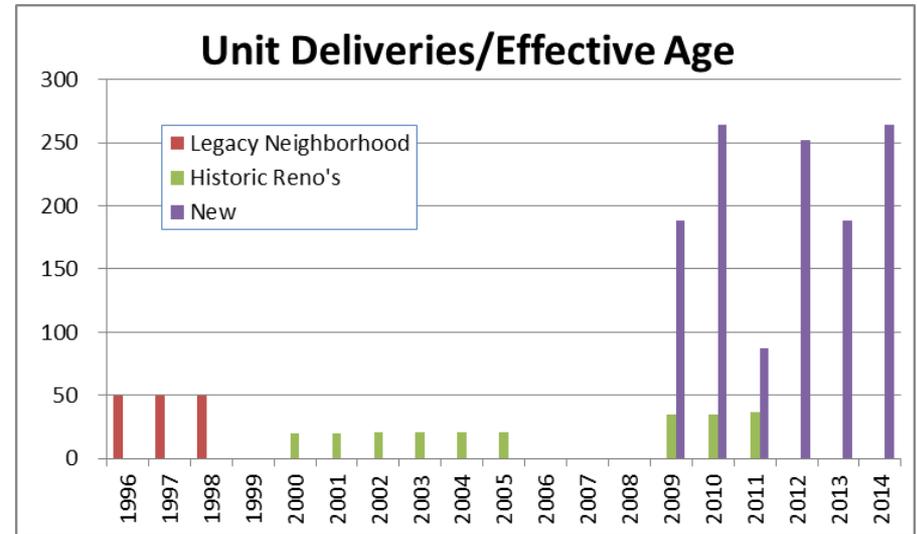
- \$1500-\$1600 per year for 2 recent evaluations (unconstrained)
 - Current dollars and neutral regional cost factors
- Details vary but general results are similar
- Need strategy to cover all sustainment needs
 - Reinvestment funds provide relief, but may not arrive in time





Why is This Not a Problem Today

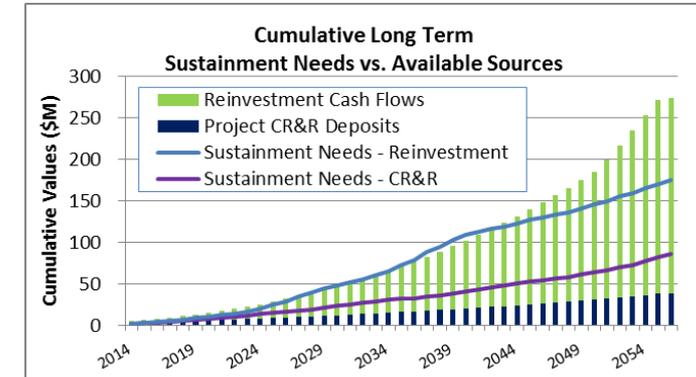
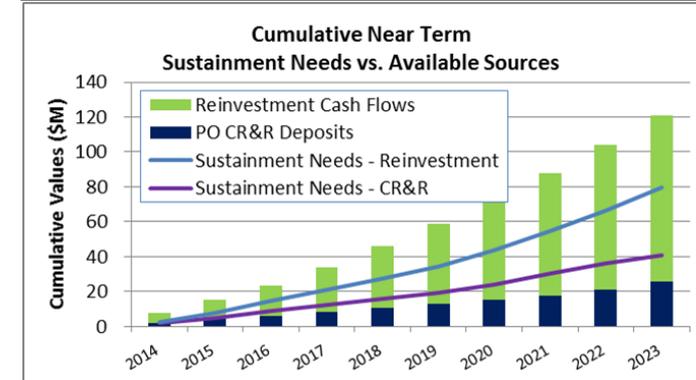
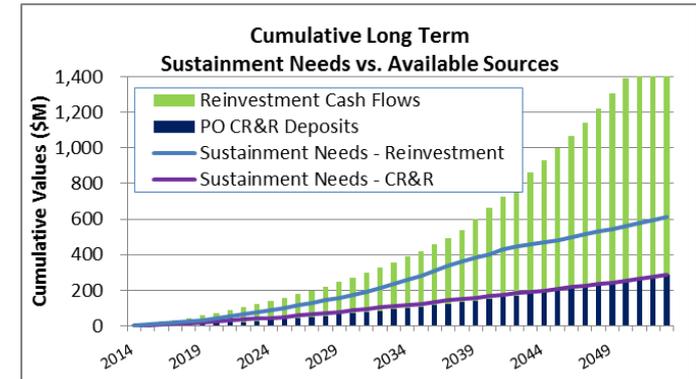
- **CR&R spends are lumpy**
 - Not yet replacing components
 - Still in honeymoon phase
- **Large project example**
 - 1430 homes 6 year IDP
 - 1051 new
 - 148 legacy
 - 231 historic renovations
- **Component replacements**
 - Near term needs very limited
 - Flooring coming in 2 years
 - Refrigerators in 7
 - Will level over time
 - But not at current levels
- **Bottom line – SAVE CR&R \$**





Typical Findings

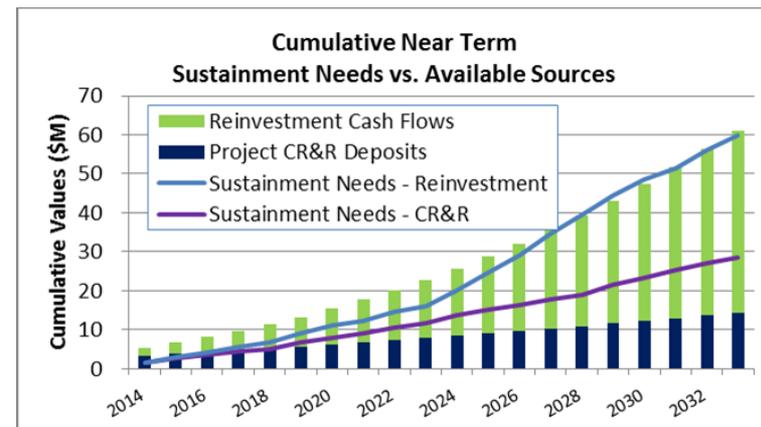
- **Long-term (next 40 years)**
 - Reinvestment funds will need to close sustainment gaps
 - Reinvestment plans will be impacted
- **Mid-Term (next 10 years)**
 - Projects failing to save for coming needs
 - First cycle replacements hit in next 5-10 yrs
 - Limited reinvestment avail to offset needs
- **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





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; need to balance CRR/reinvestment needs
- All stakeholders need to focus on the medium-long term horizon



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Questions

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Backup

