

# 10 Tips for Creating an Organizational Utilities Budget



Whether you are just starting out with utility budgeting, or are looking for ways to improve processes already in place, you'll benefit from using this tip sheet.

## **Tip #1: Gather historical data.**

So how do you go about creating your annual utilities budget? Many organizations just look at what they spent last year and increase it by a percentage. If they spent \$5 million last year; they bump up the spending by 5 percent this year. So start with the history, but read on to learn how to modify this basic budget process and create a more accurate and defensible budget.

## **Tip #2: Determine the basis for the budget.**

Presumably you have a use/cost history for your property portfolio, so determine how much of that history you are going to consider in your budget planning process. Many would simply use the most recent 12 months. Others would use the last complete fiscal year for which they have complete data in their accounting records.

Another option: take the average of several prior years. The rationale here is that if you average a few years together you might get a better composite that tends to reduce the impact of one year of severe weather on your utilities budget. Better yet, look at the average usage in prior years but then to apply today's most recent unit price, since it is usually the most reflective of what you can expect going forward.

## **Tip #3: Determine the granularity of the budget.**

The simplest budget might break down the total of purchased utilities by commodity, with separate line items for electricity, gas, water, sewer, oil and so on. A more granular budget could be further broken down by campus, or building site, or even by building. The most granular budget would be the meter-by-meter budget.

Consider managing cost AND use when budgeting. Most people when they think of a budget are thinking in terms of dollars and cents. But anticipating usage trends can often help focus attention on issues when actual use diverges from budget. Tracking actual consumption versus budgeted consumption provides more actionable data.

## **Tip #4: Determine the timespan of the budget.**

Do you need an annual budget, or does a quarterly budget better fit your organizational needs? What variables are significant drivers in the budget creation process? If these variables change at a more rapid rate, a longer-term budget may simply not be practical.

## **Tip #5: Consider relevant factors**

It is very important to account for anticipated vendor rate changes. Other factors that impact the budget significantly can include facility construction, occupancy, and equipment changes. If you will be conditioning more space, your heating and cooling expenses will grow proportionally. If your occupancy is correlated with your energy use, you will need to determine the correlation and plan accordingly. If there are major equipment changes, such as installation of air conditioners, the associated utility costs will need to be considered. You should also give careful thought to the impact of planned energy management initiatives. Major retrofits can significantly impact an organizational utility budget, and many retrofit improvements can be relatively easy to quantify.

**Tip #6: Don't forget performance contracts.**

Make sure to account for contractor fees paid out of the utilities budget. Many utilities-related energy management projects include a performance contracting component, such as shared savings or guaranteed performance. Be sure that your budget reflects these realities.

**Tip #7: Account for reduced maintenance resulting from historical projects.**

If you've implemented some energy management projects in the recent past, you may reasonably expect reduced runtimes for lighting and equipment that should yield savings on the maintenance side, including fewer filter changes, less preventative maintenance, and fewer lamp and bulb replacements.

**Tip #8: Don't forget the weather.**

If you will base today's budget on a single year of historical data, it is very important to determine if weather was typical or abnormal. Weather can significantly impact the budget, so make certain that your weather assumptions are reasonably accurate. A historical weather data website like [www.weatherdatadepot.com](http://www.weatherdatadepot.com) can be very helpful in providing assessment data.

**Tip #9: Determine in advance if and how budget funds will be allotted.**

Some organizations pay for utilities centrally out of a physical plant or general services budget. This is a simple and straightforward approach.

Others break down utility budgets and expenses department by department or agency. The rationale is that if each department has to pay for utilities from their own utilities budget, stakeholders may be more motivated to save.

If you determine that a decentralized chargeback process is the best type of budgeting for your organization, make certain to account for the added complexity of budgeting and invoicing. A revenue budget has to be determined so that you know how much funding will be generated from the customer chargebacks. Also, it is vital to maintain good records about how customers are charged for their utility use. Is the cost of the utility bill shared between departments, or is the bill completely paid by one department? Such allocations may frequently change, so management becomes essential.

Chargeback "customers" should receive an annual summary including expenses and G/L records, along with a change request for the following year's budget. This type of procedure is very helpful for keeping track of organizational changes impacting your energy program.

**Tip #10: Do what works for YOU.**

At EnergyCAP, we've been helping clients with utility budgeting since 1985, and virtually every client has had a slightly or radically different spin on budgeting. We found it to be very difficult to develop software with a budget module that fully meets everyone's needs. Our final tip? Be creative and don't be afraid to customize a process that works for you.

There you are: 10 Tips on How to Create an Annual Organizational Utilities Budget. We hope that they assist you in building the best budget ever!