

## AVERAGING EXAMPLE:

### Forecasting Snow Removal Expenses

One of your properties, the Jones Building, is located where there is snow. You must forecast expenses for snow removal from the building's paved areas for the coming year, Year 6. You pay for snow removal on a contract basis as needed and your contract with the snow removal company is for the same fee as last year. Total monthly expenses for the last five years are summarized below. What method should you use to forecast Year 6 expenses and what are the forecast results?

#### Snow removal (actuals)

		<u>March-Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>
Year	1	\$0	\$1,100	\$1,300	\$1,400
Year	2	\$0	\$1,100	\$1,200	\$1,300
Year	3	\$0	\$1,400	\$1,400	\$1,200
Year	4	\$0	\$900	\$850	\$750
Year	5	\$0	\$1,250	\$1,100	\$1,100

#### Averaging Solution:

Obviously, expenses are not increasing by a predictable amount. The chief reason for differences in monthly cost is the number of days it snowed. The weather for the coming winter cannot be accurately predicted. Inflation is not a factor because you know what the fee will be for the next year. Your best bet, therefore, is to use a simple average from the last five years.

#### Completed Forecast:

Year	1	\$0	\$1,100	\$1,300	\$1,400
Year	2	\$0	\$1,100	\$1,200	\$1,300
Year	3	\$0	\$1,400	\$1,400	\$1,200
Year	4	\$0	\$900	\$850	\$750
Year	5	\$0	\$1,250	\$1,100	\$1,100
		\$0	\$5,750	\$5,850	\$5,750
Average		\$0	\$1,150	\$1,170	\$1,150
Forecast		\$0	\$1,150	\$1,170	\$1,150