

## Fixed Expenses Aren't Really Fixed!

May 18, 2015 / By Kirby D. Payne



Somewhere on most hotel financial statements, usually towards the bottom, is a major heading called Non-Operating Income and Expense. Before the **11th Edition of the Uniform System** it was known as Fixed Expenses. I firmly believe that General Managers and Comptrollers created the former title for two reasons: Either owners handled the items bundled in there or General Manger and Comptrollers didn't want to assume responsibility for the items they placed there.

This section includes items such as rent, real estate taxes, personal property taxes, building and contents insurance, interest expense, depreciation and amortization.

Other items that might appear there are equipment leases and miscellaneous costs that an operator or manager dismisses as out their control. While not classified as fixed expenses payroll taxes, unemployment insurance and other benefits - both those discretionary to the operation and those which are mandated by government regulation - are commonly thought of as fixed expenses by many hoteliers.

There are very few costs that are actually uncontrollable in a hotel. There are simply some expenses which take longer to reduce than others! Many of these are the same ones that should be controlled by planning and negotiation when the acquisition or development is planned.

General Managers and Comptrollers (management) should not divorce themselves from these issues any more than an owner would. One way an owner can enhance these key employees' interest in these expenses is to make their incentive pay tied to the owner's real profitability. This is also true of management company incentive fees.

### Real Estate Taxes

Real estate tax assessments, their calculations and their payment are a matter of public record. By researching other hotels' assessments at the county offices and understanding their calculations, management can begin to ascertain whether the taxes assessed their particular hotel are relatively fair or not.

If they appear to be unfairly high relative to the competition and the hotel's circumstances, management can, at a minimum, sit down with the tax assessor and discuss the issue. S/he will answer questions, ask for more information and possibly lower the assessment. In areas where there are personal property taxes, the system works much the same way.

If the assessments are apparently unfairly high and the assessor does not agree, management, with the owner's approval, can begin the appeals process. In a simple case, much of the work can be done by management. In addition to **HVS Property Tax Services** there are lawyers who specialize in this area of the law. Both can be retained on a fee or contingency basis. Real estate taxes should be examined every three or four years, depending upon local circumstances.

### Workers Compensation

Workers compensation insurance, in countries where it is required, can be attacked from several directions. The most obvious is to ensure that all employees are properly classified because different classifications have different insurance rates applied to them.

Next, management should ensure that workers compensation insurance is being bought from the least expensive source available to a particular hotel.

### Summary

In most hotel P&Ls, usually towards the bottom, is a heading called Non-Operating Income and Expense, formerly known as Fixed Expenses. Few costs are uncontrollable in a hotel. There are simply some expenses which take longer to reduce than others!

2 Comments

### FILED UNDER CATEGORIES

- Hotel Investments & Ownership
- Lending
- Asset Management
- Food & Beverage
- Development & Construction
- Brokerage & Transactions
- Hotel Accounting
- Hotel Management
- Property Tax
- Risk Management

Another factor affecting workers compensation insurance is a particular location's claims experience. Records of previous losses must be reviewed and action taken, either through staff training, physical changes in the hotel or in methods of accomplishing tasks. Any claims must be managed aggressively to keep the insurer's outlay to a minimum by getting the person back to the work force as soon as possible and monitoring payments to object to unnecessary treatment.

Remember, even an injury sustained while walking out to their car can result in an accepted workers compensation claim. We had one workers compensation claim for an employee who tripped over a cat on the way to her car.

In many places, the regulations have created a burdensome system. The limits are high, the definition of injuries, the time limits and the bureaucracy all contribute to higher expenses than the surrounding states. By lobbying together with your local hotel association to making legislatures and the administration aware of the problem, management can contribute to reducing this expense.

### **Minimum Wage**

Minimum wage is also a "fixed expense" by acting as a baseline, or "floor" for wage calculations. At the local, state or province, and national levels, one must participate in the process of government to affect change.

In the United States, with many local governments, various states, and the U.S. Congress contemplating increases, one must be doubly careful. Remember, when there are two or more different laws on the same subject, the one most beneficial to the employee, not the employer, is the one that applies. In the case of local governments in the United States, some of the new extreme minimum wages discriminatorily apply only to hotels but not the adjacent freestanding restaurants, retail businesses or other establishments. In some cases hotels a short distance apart in in two different towns have very different minimum wages and labor regulations creating unfair competitive situations.

Managing your labor force more efficiently, reducing staff and outsourcing some activities will help mitigate increases. For instance evaluate the option to purchase more pre-cut vegetables, prepared sauces, possibly even the unthinkable, using a laundry service. Again, consider joining with others in the hospitality industry through your local hospitality associations in addition to, in the United States, the **American Hotel & Lodging Association**.

### **Interest and Lease Expenses**

Getting your interest and lease expenses reduced may be as difficult as reducing government-mandated expenses. Interest and lease expenses are negotiable at the time the agreements are entered into. However, many times they can be reduced simply by asking at a strategic later time.

The hammer that the owner has is that the lender/lessor knows that you can go out and get a new loan, buy out the lease or do business in the future with another lender or leasing company.

It is a difficult and time consuming task, but a worthwhile one. Given the current low interest rates, deals made in the most recent few years may be as good as they can be for the foreseeable future. Work with your owner and network with your local banks to make sure the hotel is getting the full benefit of the situation. From the networking you should at least be able to get their rooms, meeting and party business!

When considering new loans or leases, remember that the items or equipment you are purchasing are a separate transaction from the loan or lease. Just like soap and toilet paper are commodities, so is money. No lender or leasing company is doing you a favor by giving you access to money. You are a customer helping them reach a sales budget. Shop for the best deal. The leasing company suggested by the vendor may not necessarily offer the best deal.

### **Insurance Cost Is Controllable**

Insurance of all types is a completely controllable expense within certain limits. Deductibles, co-payments and proper valuation of the building and furniture, fixtures and equipment replacement cost are all components of the insurance premium. The hotel's loss record enters into the calculation also. Changes in any or all of these items will affect your premium cost.

Different insurance companies charge different rates for insuring hotels based on their loss experience and

appetite for hotel insurance risk at a particular time.

Work with your insurance agent to understand what and where s/he has been shopping for your insurance. Are the companies (agencies refer to insurance companies as "markets") your agency has been considering regular insurers of hotels? Ask your agent why s/he doesn't investigate other markets. Use two agencies and have the second agency shop other markets. Look for agencies which have several other hotel clients and experience handling hotel claims. If you have the financial stature to do so, give serious consideration to self-insurance. A place for good advice regarding insurance for hotels is **HVS Risk Management**.

### **In-Room Entertainment**

Cable and satellite TV expense are also manageable. Reducing premium channels offerings is a quick way to reduce cable expense. Do your guests really expect or want those channels? Viewing tastes have changed in recent years and not just among younger travelers. Don't let cable companies fool you with their claims of regulations and community controlled tariffs. Usually those only apply to residential consumers. There are more alternatives to bringing TV signals and internet bandwidth into a hotel than ever before.

Look into pay-per-view providers satellite companies now so you will be prepared when the current cable contract expires. In many cases, pay-per-view can be layered on top of the cable system so the hotel can earn some offsetting revenues.

### **Summary**

In summary, look at every expense and don't skip by those commonly considered to be fixed. You can often make a greater impact on the bottom line through some of these items than by reducing food cost and most don't require attention to maintain on a daily basis.

### **About Kirby D. Payne**



Kirby D. Payne, CHA, President of HVS Hotel Management and HVS Asset Management - Newport, has over 40 years of hotel operations, consulting, and development experience. He was the 2002 Chair of the American Hotel & Lodging Association (AH&LA) and a former Director of the National Restaurant Association. He is a frequent speaker and author. His hotel experience began as a four-year-old living in a hotel on the Amazon River in Brazil, which was managed by his father for InterContinental Hotels. He never lived in a house until he was 13. Payne previously served on the Certification Commission of the AH&LA's Educational Institute. HVS Hotel Management has operated hotels throughout the United States and has served a multiplicity of clients, including lenders, airports and other government entities, and individual investors. HVS Asset Management - Newport oversees upscale and luxury hotels on behalf of clients who use branded management and major independent management companies. Both companies undertake various consulting assignments including, but not limited to, development consulting, brand and management company selections and contract negotiations, Hotel Performance Analysis and litigation support (expert witness). Mr. Payne is frequently appointed as a Receiver for hotels and resorts. Contact Kirby at +1 (401) 625-5016 or [\[email protected\]](#).