THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
December 5, 2007
Report of the
General Manager
and
Treasurer

HOUSING YORK INC.
2008 BUSINESS PLAN AND BUDGET

1. RECOMMENDATIONS

It is recommended that:

1. The 2008 Business Plan and Budget for Housing York Inc. be approved.

2. The 2008 Business Plan and Budget be presented to the shareholder for its receipt.

2. PURPOSE

This report presents the 2008 Business Plan and Budget of Housing York Inc. (*see Attachment 1*) for the Board's review and approval. It includes the operating and capital expenditures for the 2008 budget year and two outlook years, and the planned objectives and key work initiatives for Housing York Inc.

Additionally, the Business Plan and Budget incorporates the 2008 phase of the energy management strategy. This proposed multi-year initiative is subject to the Board's approval of the Energy Management Retrofit Program. This report also reviews expenditures that will be funded from Retained Earnings during the business planning period, based on prior year Board decisions.

3. BACKGROUND

Housing York Inc. annually seeks Board approval of its Business Plan and Budget.

3.1 2008 Business Plan focuses on three areas: tenant relationships, asset management, and performance

The 2008 Business Plan is consistent with the Housing York Inc. Statement of Principles and its goals are structured in the following business areas:

- Tenants and Community.

- Asset Management Programs.
- Accountability and Performance.

Overall, the Business Plan strategy is directed toward providing quality property management services, extending the useful life of housing assets, reducing costs, minimizing risk, and ensuring legal compliance.

The Business Plan provides key performance indicators as a means of measuring performance in specific areas of business. The key performance indicators for Housing York Inc. are typical of those used by most housing providers in Ontario.

The 2008 Business Plan also includes a multi-year energy management plan, submitted separately to the Board for their approval.

3.2 Budgeted surplus in 2008 provides financial flexibility

Some notable observations about the budget submission include:

- Operating surplus in 2007 is forecasted to be $249,000
- Operating surplus in 2008 is estimated at $339,217.
- A contribution to Retained Earnings is projected at $184,000.
- Revenue increases 5.2% over 2007 budget.
- Operating expenses increase 4.1% and reflect realistic building and materials costs.

The budget outlook for 2009 and 2010 are estimated using an escalation factor of 2.0%. Costs related to major repairs/replacement expenditures are based on the 10-year capital replacement plan.

4. ANALYSIS AND OPTIONS

4.1 Budgeted operating surplus of $339,000 offers financial flexibility

Revenues will exceed operating expenses by $339, 217. Approximately $155,000, or 45%, of this surplus will be invested in strategic projects related to positioning for growth. The remaining budgeted surplus of $184,217 will be contributed to Retained Earnings.

The surplus for the 2008 Budget is compared to the 2007 Budget in Table 1.

Table 1
2008 Operating Surplus Comparisons
($000's)

	2007 Base Budget	2008 Base Budget	Annual-Ization	2008 Total Budget	2008 Base vs. 2007 Base		2008 Total vs. 2007 Base	
Total Revenue	$20,666	$21,438	$305	$21,743	$772	3.7%	$1,077	5.2%
Total Expenditures	20,553	21,099	305	21,404	546	2.7%	851	4.1%
Operating Surplus Before Strategic Projects	**113**	**339**	**-**	**339**	**226**	**-**	**226**	**-**
2008 Strategic Projects	-	155	-	155	155	-	155	-
Operating Surplus After Strategic Projects	**$ 113**	**$ 184**	**-**	**$ 184**	**$ 71**	**-**	**$ 71**	**-**

The 2008 surplus is the result of a higher revenue stream generated from rent and miscellaneous sources.

4.1.1 $155,000 of 2008 operating surplus will fund special projects

Non-routine expenditures totalling $155,000 are planned in 2008 that would not typically be funded from operations or subsidy. These costs are considered strategic initiatives, the most significant of which pertains to reviewing technology options that will allow Housing York Inc. to keep pace with growth and promote property management efficiencies.

The opportunity to fund these initiatives internally reflects Housing York Inc.'s ability to become more self-sustaining and less reliant on the Region for non-typical costs.

4.2 Revenue is 5.2% higher than 2007 Budget

With the addition of a new building mid-year, total revenue is $1,077,340 or 5.2% higher than the 2007 base budget. Tenant rents and other miscellaneous income now fund about two-thirds of Housing York Inc.'s total operating expenses.

Rent and other income is $955,232 or 7.8% higher than the 2007 budget due to modest increases in market and rent-geared-to-income rents, as well as parking and laundry income. Interest income is also higher due to a change in the funding formula which allows providers to retain a portion of interest income. Finally, 2008 total revenue includes seven months of revenue with the addition of Tom Taylor Place, located in the Town of Newmarket. This new building does not receive any operating subsidy.

Federal subsidy remains constant and York Region subsidy increases $122,108 or 1.7% higher than 2007. The increase is mostly attributable to a higher capital budget in Public Housing, which in the absence of a capital reserve, is funded by operating subsidy. There is also a modest subsidy increase for the emergency shelter. Operating and rent-geared-to-income subsidy is lower in 2008 in the Provincial Reform Program.

Table 2 provides comparative budget revenue information.

Table 2
2008 Revenue Budget Comparisons
($000's)

Revenue	2007 Base Budget	2008 Base Budget	Annual-Ization	2008 Total Budget	2008 Base vs. 2007 Base		2008 Total vs. 2007 Base	
Tenant Rents	$12,264	$12,914	$305	$13,219	$650	5.3%	$ 955	7.8%
Subsidy - York	7,083	7,205	-	7,205	122	1.7%	122	1.7%
Subisdy – Federal	1,319	1,319	-	1,319	-	-	-	-
Total Revenue	**$20,666**	**$21,438**	**$305**	**$21,743**	**$772**	**3.7%**	**$1,077**	**5.2%**

4.3 Operating expenses increase 4.1% and reflect true cost of maintaining the buildings

The operating costs of the buildings is $635,868 or 3.3% higher than 2007. Approximately $500,000 or 83% of this is attributable to higher maintenance and administration costs.

In 2007, the true cost of building and services costs were not fully recognized in the budget due to the constraints of the funding formula. Housing York Inc. was able to cover the cost of building materials and services through the use of savings in other areas, most notably utility savings. This pattern was reported to the Board in both mid-year and year-end reports with a notation that this was not an advisable strategy for the long term.

For 2008, the Province changed the funding formula and recognized the need for cost increases within the formula. Therefore, the maintenance and administration budget has been amended to reflect the expected actual cost of materials and services. This strategy will allow for a more consistent comparison of actual against budget. It will also ensure that savings from energy efficiency upgrades can be targeted to cover the costs of those upgrades.

Table 3 compares 2008 operating expense.

Table 3
2008 Operating Expense Comparisons
($000s)

Operating Expenditures	2007 Base Budget	2008 Base Budget	Annual-Ization	2008 Total Budget	2008 Base vs. 2007 Base		2008 Total vs. 2007 Base	
Operating	$19,403	$19,735	$305	$20,040	$332	1.7%	$636	3.3%
Public Housing Capital	1,150	1,364	-	1,364	214	18.6%	214	18.6%
Total Expenditures	**$20,553**	**$21,099**	**$305**	**$21,404**	**$546**	**2.7%**	**$850**	**4.1%**

4.4 Major repairs/replacement budget is $500,000 lower in 2008; pressure on reserve continues

The total 2008 budget for capital is $2,847,322 which is $480,978 less than last year. Public housing capital, which is funded by subsidy as an operating expense, is $214,841 higher because of two unique major repair/replacement activities. The Provincial Reform Program, funded by reserves is $679,219 lower than 2007. The expenditures from the Capital Reserve continue to exceed contributions to the reserve creating a gradual diminishing balance over time. The balance in the Capital Reserve at the beginning of 2008 is $4,798,000. At the end of the business planning period in 2010 the balance is projected to be $2,612,000.

It should be noted that the major repairs/replacement budget for 2008 does not include spending for energy management or emergency power upgrades.

4.5 Previously approved expenditures from Retained Earnings are on track

4.5.1 Energy management pilot project wraps up in June 2008

The two-year pilot to retrofit Founders Place, 540 Timothy Street, in the Town of Newmarket and Elmwood Gardens, 325 Elm Road, in the Town of Whitchurch-Stouffville will conclude in June 2008. The Board had approved the use of up to $500,000 from Retained Earnings over two years to complete the initiative. Approximately $58,000 will be spent this year to wrap up the project.

The savings from the pilot project are estimated at $48,000 per year. A separate report will be presented proposing a multi-year strategy to invest in other Housing York Inc. buildings.

4.5.2 Phase IV of emergency power plan is funded from Retained Earnings

Year four of a ten-year plan approved by the Board in 2004 will see two fixed generators installed at the following seniors' buildings:

1.	Keswick Gardens, Town of Georgina	$230,000
2.	Maplewood Place, Town of Richmond Hill	$230,000
		$460,000

4.6 Key performance indicator—small decrease in manageable cost per unit

Manageable Cost per Unit is the most recognized indicator in the housing sector to measure controllable costs. This indicator includes maintenance and administration costs, insurance, and bad debts expense divided by the number of units. Utilities, mortgage payments, and property taxes are excluded from the calculation.

The Manageable Cost per Unit will decrease to $3,222 or -0.4% in 2008 from the estimated 2007 actual of $3,232. The 2008 budget reflects an adjustment in maintenance and administration to show the expected operating cost of the buildings.

Other indicators reported in the Business Plan include unit turnover and tenant arrears. The Business Plan proposes that 2008 goals will be relatively consistent with 2007 goals.

5. FINANCIAL IMPLICATIONS

This budget reflects favourable financial performance and allows Housing York Inc. to reinvest some of its expected surplus in strategic initiatives to sustain itself into the future. Tenant rents and minor miscellaneous income covers nearly two thirds of operating costs.

The total subsidies of $8.5 million incorporated into the Housing York Inc. budget in 2008 and outlook years have been included within the Region's budget estimates for the Social Housing Program. The Program subsidies have been calculated according to provincial program benchmarks and escalation factors endorsed by the Service Manager.

The Region receives federal subsidy in the amount of $1.3 million to offset the total subsidies paid to Housing York Inc.

6. LOCAL MUNICIPAL IMPACT

Housing York Inc. provides housing services to communities within York Region which benefits all residents. Property taxes are paid on all buildings ensuring that local services relating to these properties are provided.

7. CONCLUSION

Housing York Inc. will take advantage of its solid financial performance by generating a sufficient operating surplus that will fund specific one time expenditures and still contribute approximately $184,000 to Retained Earnings.

Housing York Inc. is committed to balancing its financial goals with Business Plan objectives that enhance tenant and community relationships as well as strong asset management programs.

This report recommends that the 2008 Business Plan and Budget for operating and capital expenditures of Housing York Inc. be approved, and that the 2008 Business Plan and Budget be presented to the shareholder for its receipt.

For more information on this report contact Sylvia Patterson, Assistant General Manager, Housing York Inc., Housing Services Branch in the Community and Health Services Department.

The Senior Management Group has reviewed this report.

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Recommended by:

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November 28, 2007

Attachment - 1

KC/DM/SP/dm

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