THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
February 14, 2007
Report of the
General Manager
and
Treasurer

HOUSING YORK INC.
2007 BUSINESS PLAN AND BUDGET

1. RECOMMENDATION

It is recommended that:

1. The 2007 Business Plan and Budget for operating and capital expenditures of Housing York Inc. (HYI) be approved.

2. PURPOSE

This report presents the annual Business Plan and Budget of HYI for the Board's review and approval. It includes the operating and capital expenditures for the 2007 budget year and two outlook years as well as planned objectives and key work initiatives for HYI. It also reviews expenditures that will be funded from retained earnings during the business planning period, based on prior year decisions, made by the Board of Directors.

3. BACKGROUND

The Region directly manages the operations of HYI under a property services agreement. The Region is also the Service Manager for all social housing within the Region under the *Social Housing Reform Act, 2000* (SHRA).

HYI is required to obtain Board approval of their annual Budget and Business Plan which is subsequently submitted to the Service Manager in accordance with program requirements.

3.1 Business Plan Highlights

The long-term strategic goals continue to be geared towards extending the useful life of housing assets, providing quality property management services, reducing costs, minimizing risk, and ensuring legal compliance. In addition, the corporation continues to pursue energy management strategies related to building retrofits and related pilot initiatives.

The Business Plan provides Key Performance Indicators (KPI’s) as a means of measuring performance in specific, relevant areas of business. The KPI’s for Housing York Inc. are typical indicators that are recognized as standard measurements for many housing providers.

The outlook years of 2007 and 2008 were estimated using an escalation factor of 3.0%. Costs related to capital expenditures are based on the 10-year capital replacement plan. The 2006 results are unaudited estimates which are considered preliminary and subject to change pending final year-end calculations related to subsidy settlement.

3.2 Budget Highlights

The buildings in HYI belong to one of three programs, each of which is associated with a unique funding model for budgeting and subsidy eligibility purposes.

Based on revenue and expense projections, the Provincial Reform program is projected to generate an operating surplus of $113,000 in 2007. Public Housing is a neutral budget with no surplus or deficit expected. The Regional Housing Program is also a neutral budget as budgeted surplus is directed to the capital reserve.

Some general highlights to note:

- Revenue and expenditure predictions for 2007 are summarized at the HYI level for Board presentation purposes; however, detailed analysis is prepared for the Service Manager for each building and by program.
- Utility costs continue to be unpredictable and could influence spending by the end of 2007.
- Capital expenditures are higher than previous years in the Provincial Reform program as these buildings mature; this matches HYI’s capital projections.
- The subsidy estimates are based on formula driven calculations consistent with Provincial and Service Manager guidelines.
- The additional subsidy funding to HYI for transferred properties, such as Trinity Square, and Transitional and Supportive Housing Services of York Region, are not incremental costs to York Region as these funds would have been allocated to the former housing providers responsible for these properties.

The 2007 Budget is based on the portfolio alignment as outlined in Table 1.

Table 1
Housing York Inc.
(Consolidated – 30 buildings; 1,927 units plus one shelter site)

Provincial Reform Program (11 buildings; 937 units)	**Public Housing Program (17 buildings; 872 units)**	**Regional Housing Program (2 buildings; 118 units)**	**Emergency Shelter (Transitional & Supportive Housing)**
Provincial benchmark funding formula.	Subsidy determined by Service Manager.	Not eligible for subsidy.	Funding limited to mortgage, taxes and reserve contributions.
Reserve funded by mandatory contributions.	No capital reserve fund – capital repairs funded by operating budget.	Reserve funded by annual surplus operating funds.	Reserve funded by mandatory contributions.
Surplus operating funds shared with Service Manager.	Surplus operating funds returned to Service Manager.	Surplus operating funds directed to reserve.	HYI subsidy equals expenses; no surplus anticipated.

The Housing York Inc. 2007 Business Plan and Budget is attached to this report (*see Attachment 1*).

4. ANALYSIS AND OPTIONS

4.1 All Housing Programs - Operating

For comparative purposes, the 2006 base budget and 2006 estimated actual results are provided in the Business Plan. It should be noted that the estimated year end results are preliminary and do not include subsidy settlement calculations which will reduce the amount of operating surplus the Corporation ultimately earns. The importance of presenting approximate year end results is to identify that actual performance in 2006 was positive. This favourable budget variance is largely due to the acquisition of Trinity Square, a 100 unit family townhouse site, which is not included in the base budget.

The estimated operating surplus is expected to change when year end calculations are complete. The final surplus amount is ultimately shared with the Service Manager and only the eligible portion dictated by the funding model remains in the Corporation's retained earnings.

Due to the preliminary nature of the 2006 estimates and the fact that the results are favourable, no further analysis will be provided in this report. It should be noted that the full analysis for the 2006 year end will be provided to the Board in June 2007 following the annual audit of accounts this spring.

4.1.1 Revenue

Table 2 provides comparative budget information. The base budget for 2006 and 2007 reflects the portfolio with 28 buildings. The annualization component includes the full year impact of Trinity Square and Blue Willow Terrace. The 2007 total budget reflects the portfolio as it stands today with 30 buildings and the emergency shelter property.

Table 2
2007 Revenue Budget Comparisons

$000	2006 Base Budget	2007 Base Budget	Annualiz-ation	2007 Total Budget	2007 Base vs. 2006 Base		2007 Total vs. 2006 Base	
Revenue								
Tenant Rents	10,658	10,875	1,388	12,264	217	2.0%	1,606	15.1%
Subsidy-York	5,907	6,185	898	7,083	278	4.7%	1,176	19.9%
Subsidy – Federal	1,319	1,319	-	1,319	-	-	-	-
Total Revenue	**17,884**	**18,379**	**2,286**	**20,666**	**495**	**2.8%**	**2,782**	**15.6%**

Without the additional buildings, revenue would have been 2.8% higher than 2006. The inclusion of the new buildings increases revenue by 15.6%.

While York subsidy in 2007 is higher than 2006 by 19.9% overall, it should be noted that this is not incremental subsidy to the Region in that the previous providers would have received this entitlement. Housing York's acquisition of the properties merely redirects the subsidy.

4.1.2 Operating Expenses

Table 3 should be interpreted the same way as the revenue table shown in Table 2 in Section 4.1.1.

Table 3
2007 Operating Expense Comparisons

$000 **Operating Expenditures**	2006 Base Budget	2007 Base Budget	Annual-ization	2007 Total Budget	2007 Base vs. 2006 Base		2007 Total vs. 2006 Base	
Operating	16,660	17,149	2,254	19,403	489	2.9%	2,743	16.5%
Public Housing Capital	1,150	1,150	-	1,150	-	-	-	-
Total Expenditures	**17,810**	**18,299**	**2,254**	**20,553**	**489**	**2.8%**	**2,743**	**15.4%**

The base operating expense budget for 2007 compared to 2006 base is 2.8% higher mostly due to increases in utilities. With annualization of two new buildings, the operating expense budget is 15.4% higher than 2006.

Increases in tenant rent and eligible subsidy offset the higher expenses.

4.1.3 Operating Surplus

The funding model for the Provincial Reform Program requires that providers budget an operating surplus greater than zero. The total budget for 2007 assumes that the corporation will generate nearly $113,000. This scenario provides some financial flexibility during the year as operating surplus may be used to offset unplanned expenses.

Table 4
2007 Operating Surplus Comparisons

$000	2006 Base Budget	2007 Base Budget	Annualization	2007 Total Budget	2007 Base vs. 2006 Base		2007 Total vs. 2006 Base	
Total Revenue	17,884	18,379	2,286	20,666	495	2.8%	2,782	15.6%
Total Expenditures	17,810	18,299	2,254	20,553	489	2.8%	2,743	15.4%
Operating Surplus	74	80	32	113	6	8.2%	39	52.7%

4.2 All Housing Programs – Capital

The total 2007 Budget for capital is $3.3 million. As shown in the Business Plan this compares to $2.6 million in the 2006 Budget.

Significant investment is required in the Provincial Reform buildings for the next few years as they age and major components are replaced or upgraded. This is a normal cyclical trend and eventually investment in these buildings will level off as it has done in the Public Housing Program.

Since the Provincial Reform capital expenditures are funded by the reserve, the impact on the reserve reflects the same trend of increased spending. Planned expenses will exceed the mandatory contributions resulting in a net draw down on the reserve of $1.4 million in 2007. During the business planning period from 2007 to 2009, the actual capital reserve balance is expected to decline from $5.9 million to an estimated level of $3.1 million with the highest level of expenditures expected to take place in 2007.

It should be noted that the capital budget for 2007 does not include spending for energy management or emergency power upgrades. These activities are discussed in the next section.

4.3 Other Budget Considerations

4.3.1 Energy Management Strategy

The Board has approved the use of up to $500,000 from Retained Earnings to commence energy management initiatives which are planned over the next several years. Two buildings currently undergoing retrofit are Founders Place in the Town of Newmarket and Elmwood Gardens in Town of Whitchurch-Stouffville.

In 2006, half of the approved limit was budgeted at $250,000 but only approximately $83,000 was spent. Timing delays were experienced in managing stakeholder needs, however work will accelerate in 2007.

The strategy contemplates leveraging HYI funds with other funding initiatives. Participation in the Social Housing Services Corporation's, Green Light Loan Program is one such initiative. Efforts continue to identify other funding sources. A full report will be forthcoming outlining the performance of this initiative.

The 2007 budget of $337,000 is itemized in Table 5:

Table 5
2007 Energy Management Expenses

Expenditure	2007 Budget
Salary and benefits	$ 110,000
Energy audit initiatives	50,000
Potential expenses not covered by Incentive programs	177,000
	$ 337,000

4.3.2 Emergency Power

Following the 2003 Blackout, HYI reviewed its energy power services and provided the Board with a proposed multi-year strategy to make improvements over time to be funded from Retained Earnings. During 2007, Maplewood Place in the Town of Richmond Hill and Keswick Gardens in the Town of Georgina are scheduled to receive emergency power installations. A 2004 consultant report estimated a total cost of $179,000 as shown in the Table 6. However, since then a decision to install natural gas generators rather than diesel was viewed to be more consistent with the energy management strategy. This has resulted in a revised budget of $230,000 for 2007.

Table 6
2007 Emergency Power Upgrades

	2004 Estimate	2007 Budget
Maplewood Place	$ 75,000	$ 100,000
Keswick Gardens	104,000	130,000
Total	**$ 179,000**	**$ 230,000**

The budget data presented for 2008-2009 is consistent with the original schedule approved by the Board in 2004; however, the balance of the emergency power plan is under review as some scheduling adjustments have become necessary. This information will be presented to the Board at a later date.

4.3.3 Emergency Shelter

As mentioned earlier in this report, HYI recently acquired an emergency shelter site. The Corporation is a landlord only and shelter services are delivered under regional contract by Transitional and Supportive Housing Services York Region. The site is eligible to receive limited funding under the SHRA, and as a result, subsidy is shared between the parties through a formal operating agreement. HYI receives funding from York Region for mortgage, taxes and mandatory contributions to the capital reserve. For informational purposes, this funding, valued at $115,539, equals the total of the landlord expenditures associated with the site and nets the Corporation’s budget impact to zero.

The value of the capital reserve transferred to HYI at the time of purchase is estimated at $75,000 of which approximately $15,000 was spent in 2006 and included in the year end forecast. No capital expenses are included the 2007 Budget.

Further updates regarding this site are expected to be provided at a later date.

4.4 Key Performance Indicators

The primary key performance indicator used by HYI to measure relative efficiency is known as Manageable Cost Per Unit. It 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 in the Provincial Reform Program is expected to decline from $2,982 to $2,907. Modest increases are expected in the other programs compared to the 2006 Budget, most noticeably the Regional Housing Program, due to the inclusion of Blue Willow Terrace in the City of Vaughan. These are outlined in the Business Plan.

Other indicators reported in the Business Plan include unit turnover and tenant arrears. The Business Plan proposes that 2007 goals will be relatively consistent with 2006 goals.

5. FINANCIAL IMPLICATIONS

The total subsidies of $8.4 million incorporated into the HYI budget in 2007 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 HYI.

6. LOCAL MUNICIPAL IMPACT

HYI 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

HYI is committed to managing its portfolio in a cost effective manner while providing safe, secure and affordable housing to its residents. This report recommends that the 2007 Business Plan and budget for operating and capital expenditures of Housing York Inc. be approved, and that the 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 Services and Housing Department.

The Senior Management Group has reviewed this report.

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Attachment - 1
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