THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
April 14, 2004
Report of the
General Manager
and
Treasurer

2004 BUSINESS PLAN AND BUDGET

1. RECOMMENDATION

It is recommended that:

1. The 2004 Business Plan and Budget *(see Attachments 1 and 2)* for operating and major repairs/replacement expenditures of Housing York Inc. be approved.

2. PURPOSE

This report presents the first business plan of Housing York Inc. for the Board's review and approval. It includes the 2004 objectives and key work initiatives for Housing York Inc., as well as planned operating and major repairs/replacement expenditures for the 2004 budget year and two outlook years.

2.1 Business Plan Highlights

The Housing York Inc. Business Plan identifies three key objectives that promote:

1. Developing a long-term strategy to extend the life expectancy and performance of the building assets.
2. Adopting a service delivery model that meets the diversity of our residents.
3. Enhancing business policies and practices to support cost effectiveness.

The Business Plan also introduces Key Performance Indicators, or KPI's, as a means of measuring performance in specific, relevant areas of business. Results and forecasts for the 2004 Budget year are included for Average Annual Operating Cost per Unit, Unit Turn-over, and Tenant Arrears for current and former tenants.

The outlook years of 2005 and 2006 have been estimated using an escalation factor of 3.0% except those items related to major repairs/replacement expenditures and funding where projections based on the 10-year major repairs/replacement improvement plan have been used. The 2003 results are unaudited.

2.2 Budget Highlights

- Increase in operating expenses of $659,000 or 4.2 % over 2003 budget levels which includes the operationalization of Armitage Gardens.
- Increase in operating revenue by $334,000 or 3.3%
- Increase in York Region subsidy revenue of $337,000 or 5.9% to fund the expenditure requirements.
- Major repairs/replacement expenditures will increase by $503,000 over 2003 budget levels with sufficient funding from the capital reserve or surplus operating funds as specified by program regulations. This is a reflection of the age of Municipal Non-Profit stock.

Other Highlights to Note:

- Revenue and expenditure predictions for 2004 are summarized at the Housing York Inc. level for Board presentation purposes; however, detailed analysis is prepared for the service manager for each building and by program.
- Operating expenses in all budget areas are subject to upward pressure, particularly in the area of contracted services for Regional labour costs, building maintenance and services, and utilities.
- Major repairs/replacement expenditures are higher than previous years as additional investment is required in maximizing life expectancy of the buildings as they age, as anticipated in the 10-year major repairs/replacement plan.
- The subsidy estimates are within the planned 2004 program budget contained in the Regional Municipality of York's Budget and Business Plan.

2.3 2003 Preliminary Results

- Operating costs were approximately 95% spent or $500,000 below the 2003 budget. The savings were largely attributable to delayed hiring and other staffing changes, partially offset by over expenditures of $104,000 for building services and materials. Significant pressure on the building services and materials budget is expected to continue as a result of higher insurance costs passed from contractors and incereased utility prices.
- The major repair/replacement expenditures were 78% spent in the Public Housing program with all jobs completed with the exception of an elevator upgrade valued at approximately $200,000 or 20% of the budget.
- The major repair/replacement expenditures in the Municipal Non-Profit program were 107% spent reflecting approximately $23,000 of additional spending to complete planned and emergent work.

3. BACKGROUND

In 2003, Housing York Inc. owned and operated 1,695 units of social housing within 26 housing projects in eight area municipalities in York Region. In 2004, 58 new units were added to the portfolio at Armitage Gardens for a total of 1,753.

The Regional Municipality of York directly manages the operations of Housing York Inc. under a property services agreement. The Regional Municipality of York is also the service manager for all social housing within the Region under the *Social Housing Reform Act, 2000*.

Housing York Inc. is required to obtain Board approval of their annual budget which is subsequently submitted to the service manager to obtain program funding.

The Housing York Inc. 2004 Business Plan and Budget is attached to this report. (*see Attachment 1.*)

4. ANALYSIS AND OPTIONS

Table 1 (*see Attachment 2*) provides a year over year summary for operating and major repairs/replacement expenditures. There are no restatements to prior year results except for consolidating the results of the former housing corporations which were previously reported separately.

4.1 All Housing Programs—Operating

4.1.1 Revenue

Total operating revenue is comprised primarily of rent revenue and operating subsidy. Rent revenue is generally comprised of rental income and miscellaneous revenue from laundry and parking. This revenue source will increase over the 2003 Budget levels by 3.3% and by 4.1% over the 2003 year end actual as a result of increased pension income for seniors which favourably affects RGI rent calculations, as well as eleven months market revenue from Armitage Gardens, partially offset by lower rental income from family tenants.

Operating subsidy, which is funded by the Region as Service Mangers, will increase by 5.9% over 2003 Budget levels in order to fund deeper assistance requirements for family tenants and because of ongoing operating cost pressures in the buildings. It should be noted that a subsidy settlement calculated at 2003 year end explains the large variance between the 2004 Budget and 2003 actuals. Housing York Inc. earned rent incentive and non-rent revenue funds throughout the year which reduced the 2003 subsidy requirement.

Overall, revenue will increase by 4.2% over 2003 budget levels.

4.1.2 Operating Expenses

Operating expenses and Public Housing major repairs/replacement will increase 4.2% over 2003 budget levels and 9.3% over year end actual results. While vacancy management initiatives in 2003 facilitated the delivery of overall services under the operating budget level, the spending pressures on the buildings were significant in all categories, largely because of external factors.

A difficult year is expected in 2004 from an operating point of view. Labour costs for Regional staff administering Housing York Inc. service delivery will increase significantly. This is because there was no budget adjustment in 2003 for a CUPE salary adjustment to Regional staff and because full OMERS pension contributions commenced in 2004 along with a predicted salary increase resulting from collective bargaining. The timing lag of the 2003 CUPE adjustment and the known increases in 2004 creates a combined impact of $294,000 or 14% to be absorbed in one budget year for salary and benefit costs.

Building costs are also expected to increase. In 2003 several hydro rebates were received under provincial government initiatives which had a favourable impact on year end actual results. However, late in the year utilities were continuing to make adjustments in their billing systems resulting in uncertainty in predicting 2004 costs. An increase of 5% is included in the 2004 utility budget to reflect anticipated rate increases and starting in 2004 Housing York Inc. will make use of new technology provided by York Region that makes tracking utility costs faster and more effective. This technology will assist Housing York Inc. by providing stronger management information that will be used in controlling costs.

Maintenance contracts will increase in 2004 in the area of snow ploughing, grounds keeping and other smaller building-related services. This is largely due to significant costs in the insurance sector causing contractors to pass their increased costs on to their customers. The projected impact is about 12% higher than 2003.

Generally speaking, the 2004 budget increase for operating costs is reflective of known outcomes. The increase is designed to maintain buildings at the same level of maintenance and due diligence that is expected by the shareholder.

4.2 All Housing Programs-Major Repairs/Replacement

The business plan identifies three areas of interest:

1. Planned expenditures by category for the 2004-2006 period, compared to 2003 Budget and actual results.
2. A list of major repairs/replacement projects greater than $50,000 for the period 2004-2006 by municipality and building.
3. The expected impact on the capital replacement reserve fund applicable to the Municipal Non-Profit program and New Housing Projects.

Major repairs/replacement expenditures are increasing due to the age and condition of the buildings. The major repairs/replacement plan identifies that expenditures will exceed contributions to the Capital Replacement Reserve Fund in 2004 and throughout the outlook years. The exception is Armitage Gardens where the new building does not require any investment at this time. In this case $12,000 in surplus operating funds is expected in 2004 which will be contributed to the Capital Replacement Reserve fund for future year’s spending.

5. FINANCIAL IMPLICATIONS

The subsidies incorporated into the Housing York Inc. budget and outlook years have been included within the Regional Municipality of York's budget estimates for Social Housing. The Regional budget approved on March 25, 2004 included funding of $5,742,560 for the Municipal Non-Profit and $638,891 for Public Housing to support Housing York Inc. which was based on assumptions in June 2003. The program subsidies have been calculated according to Provincial program guidelines and cost factors. The Regional Municipality of York receives federal subsidy in the amount of $1,318,552 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. is committed to managing its portfolio in a cost-effective manner while providing safe, secure and affordable housing to its residents.

The Senior Management Group has reviewed this report.

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Attachments - 2
KC/dm

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