# THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
October 13, 2004
Report of the
General Manager
and
Treasurer

## 2004 MID-YEAR FINANCIAL UPDATE

## 1. RECOMMENDATION

It is recommended that:

1. The 2004 Mid-Year Variance Report and Year-End Forecast Report for Operating and Capital for Housing York Inc. be approved by the Board as presented.

## 2. PURPOSE

This report presents a 2004 Mid-Year Variance and Year End Forecast Report for Operations and Capital Works Expenditures for the Board's review and approval. It also makes some mid-year and year-end comparatives of performance targets against the 2004 Housing York Inc. Business Plan and Budget.

## 3. BACKGROUND

This report provides a consolidated snap shot of the mid year operating and capital results for Housing York Inc. on June 30, 2004 and variance explanations where actual costs differ from budget by more than 5%. The year-end forecasts incorporate year-to-date trends and outcomes where known. Emerging management issues are also identified.

Notwithstanding the consolidated presentation format, there is a requirement to manage the portfolios as separate programs due to differences in funding formulas and program rules. These requirements are carefully monitored at the management level. It should be noted from a Service Manager perspective that surplus or deficit positions of either housing program cannot be netted against the other.

During the first six months of 2004, the following notable events took place:

- The Housing York Inc. Statement of Principles was approved by the Board on February 11, 2004.

- Armitage Gardens was opened on February 1, 2004 and 58 new tenants took occupancy.
- The 2004 Operating and Capital budgets were approved on April 14**,** 2004.

## 4. ANALYSIS AND OPTIONS

### 4.1 2004 Operating Results

The consolidated mid year results and year end forecast are identified in this report in Tables 1 and 2 respectively.

**Table 1**
Housing York Inc. 2004 Mid Year Variance ($/'000's)
Year To Date

| | 2004 Year To Date Actuals | 2004 Year To Date Budget | Year To Date Variance $ | Year To Date Variance % |
|---|---|---|---|---|
| **Revenue** | | | | |
| Operating | 5,208 | 5,201 | 7 | - |
| Subsidy – York Region | 2,714 | 2,776 | (61) | 2.2 |
| Subsidy – Federal | 252 | 267 | (15) | 5.6 |
| **Total Revenue** | **8,175** | **8,244** | **(69)** | **-** |
| **Operating Expenditure** | | | | |
| Operating | 7,648 | 7,685 | 37 | - |
| **Total Operating Expenditures** | **7,648** | **7,685** | **37** | **-** |
| **Major Repair & Replacement** | | | | |
| Municipal Non Profit | 7 | 68 | 61 | 89.7 |
| Public Housing | 172 | 303 | 131 | 43.2 |
| **Total Major Repair & Replacement** | **179** | **371** | **192** | **57.8** |

The impact on the Municipal Non Profit Capital Reserve is assessed during fourth quarter in preparation for year end closing.

**Table 2**
Housing York Inc. 2004 Year End Forecast ($/'000's)
Year End

| | 2004 Forecast Actuals | 2004 Annual Budget | Year End Variance $ | Year End Variance % |
|---|---|---|---|---|
| **Revenue** | | | | |
| Operating | 10,446 | 10,397 | 49 | .5 |
| Subsidy – York Region | 5,551 | 5,551 | - | - |
| Subsidy - Federal | 534 | 534 | - | - |
| **Total Revenue** | **16,531** | **16,482** | **49** | **-** |
| **Operating Expenditure** | | | | |
| Operating | 15579 | 15397 | (182) | (1.2) |
| **Total** | **15579** | **15397** | **(182)** | **(1.2)** |
| **Major Repairs & Replacement** | | | | |
| Municipal Non Profit | 722 | 781 | 59 | 7.6 |
| Public Housing | 886 | 1073 | 187 | 17.4 |
| **Total Major Repairs and Replacement** | **1608** | **1854** | **246** | **13.3** |
| Transfers to Municipal Non Profit Capital Reserve | 722 | 781 | 59 | **7.6** |
| Transfers from Municipal Non Profit Capital Reserve | **722** | **781** | 59 | **7.6** |
| **Net Impact Capital Reserve** | **722** | **781** | **59** | **7.6** |

### 4.1.1 Revenue Analysis

Overall operating income is within 1% of budget at mid year and at year end. No significant variances are expected at year end on total rental income.

All other revenue generated by HYI is on budget at mid year and year end. A mid-year accounting anomaly associated with subsidy payments is expected to be reconciled before year end.

### 4.1.2 Expenditure Analysis

On a consolidated basis at mid year the operating results are satisfactory. However, at the program level, both the Municipal Non Profit and the Public Housing Programs are modestly over budget, offset by mid year savings in New Housing Projects (Armitage Gardens). The forecast assumptions for year end indicate that the overage in the

Municipal Non Profit and Public Housing portfolios will exceed budget by approximately $182,000 or 1.2% at year end.

Increased building maintenance costs are apparent in the Municipal Non Profit and Public Housing programs, primarily relating to increased turnover. Further detail and mitigating strategies to improve the operating variance associated with direct building costs are discussed later in this report.

The estimated unfavourable variance at year end is comprised mainly of utilities $144,613; building materials and services $81,884; contracted services (salaries and benefits for Regional staff) $72,215; partially offset by GST recovery following legislative changes $108,995. The approximate share of the overage is shared by the Municipal Non Profit $101,000 or 55% and Public Housing $81,000 or 45%.

In the area of utilities, there is continued volatility pertaining to billing adjustments from Hydro One and electricity consumption patterns in several buildings. Based on forecast assumptions total utility costs could be overspent by as much as $144,613 which represents the largest component of the estimated overage. Some small recoveries are under negotiation with the utility with the hopeful outcome of reducing this variance by about $10,000. HYI is continuing efforts to gain more effective management information around energy costs by participating in new Regional initiatives. Additionally, several capital initiatives scheduled in 2004, like boiler replacements and lighting upgrades, will provide energy efficient technology helping to push usage downward.

#### 4.1.3 Emerging Management Issues

HYI is experiencing higher than expected tenant turnover. During 2004, HYI predicted that 216 units would be vacated. By mid-year 128, or 59% of planned move-outs had already occurred with the traditional peak activity in July and August yet to occur. The move-out forecast has been revised to 250, an increase of 15.7%. This is consistent with a more competitive rental market and more affordable home ownership opportunities allowing tenants more choice and creating a more dynamic rental market.

This also affects building maintenance and services costs. Waste management, painting, and utility transfer costs are higher than anticipated as a result of increased move-out activity.

Heating expenditures in the townhouse buildings is another area that is under management review. A large number of service calls have been experienced for furnaces repairs. This is not unexpected as the Municipal Non Profit portfolio ages. Maintenance records are being reviewed to identify patterns and suitable remedial action.

Insurance renewal takes place in September 2004 and increased premium costs could add additional burden in the last half of the year. Although there were expectations that the insurance sector would stabilize in 2004, recent flooding in many Ontario communities is expected to create upward pressure on insurance premiums.

Every effort is being made to manage within the approved budget. However, in the eventuality that uncontrollable costs affect the year end results, the overage in the Municipal Non Profit would be funded from Retained Earnings and would have no impact on the Regional Budget.

### 4.2 2004 Major Repairs and Replacement

Major repairs and replacement expenditures for the Municipal Non Profit portfolio are funded from the capital reserve. Mandatory contributions to the reserve are made annually based on formulas associated with subsidy funding. The Public Housing portfolio is funded through operating subsidy for major repairs.

Overall, major repairs and replacement expenditures for 2004 started off slowly due to the later budget approval this year. The first quarter was largely spent planning jobs and obtaining competitive prices. Accordingly, the mid year actual results compared to budget are well below plan. Following budget approval in April, the program moved into full swing.

The consolidated financial results for major repairs and replacements by portfolio are identified in Table 1. Year end projections for the Municipal Non Profit properties indicate a surplus budget of $59,000. This is largely as a result of roof replacement awards that were lower than budget, and cost savings on the Rosetown elevator replacement job.

Year end projections for the Public Housing Portfolio indicate that $886,000 will be spent against a budget of $1,073,000, approximately 82.6%. Several significant jobs were awarded at less than budget, specifically the elevator replacement at Orchard Heights, boiler replacement at 76 Dunlop Street and parking lot enhancements at 71 Dunlop. Several smaller jobs have been deferred for business reasons which also contribute to the overall variance. There is no capital reserve in this program and year end savings are returned to the Service Manager through annual subsidy settlement calculations.

Table 3 identifies the status of the major jobs over $50,000 that was identified in the 2004 Business Plan and Budget.

**Table 3**
2004 Major Repairs/Replacement Projects > $50,000

| Municipality | Property | Description | Contract Award | Budget | 2004 Full Year Variance |
|---|---|---|---|---|---|
| Aurora | Hadley Grange | Driveway parking lot repairs | 52 | 52 | - |
| Aurora | 57 Orchard Heights | Elevator upgrade | 174 | 233 | 59 |
| Georgina | Glenwood Mews | Phase 2 roof replacement | 25 | 52 | 26 |
| Newmarket | 468 Eagle Street | Bathroom upgrade | 263 | 309 | 46 |
| Richmond Hill | Rosetown | Elevator upgrade | 183 | 206 | 23 |
| Richmond Hill | 71 Dunlop Street | Parking lot expansion | 89 | 103 | 14 |

## 5. FINANCIAL IMPLICATIONS

The 2004 Budget requirement for HYI is expected to be managed within available funding.

Utility costs continue to be very uncertain. The delivery of a proactive energy management strategy is important to controlling the utility costs of the corporation.

## 6. LOCAL MUNICIPAL IMPACT

There are no municipal impacts associated with this mid-year report.

## 7. CONCLUSION

The Corporation is committed to managing its housing portfolio in a cost effective manner while providing safe, secure and affordable housing to its residents. Further streamlining of processes and policies are expected in the last half of 2004 which are expected to contribute to several provisions of the Housing York Inc. Statement of Principles.

The Senior Management Group has reviewed this report.

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Reviewed by:

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Approved for Submission:

Michael R. Garrett
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September 30, 2004

KC/sd

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