THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
March 8, 2006
Report of the
General Manager
and
Treasurer

HOUSING YORK INC.
2006 BUSINESS PLAN AND BUDGET

1. RECOMMENDATION

It is recommended that:

1. The 2006 Business Plan and Budget for operating and capital expenditures of Housing York Inc. be approved.

2. PURPOSE

This report presents the annual Business Plan of Housing York Inc. for the Board's review and approval. It includes the 2006 objectives and key work initiatives for Housing York Inc. as well as planned operating and capital expenditures for the 2006 budget year and two outlook years. 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.

2.1 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 legal compliance. In addition, there is increased emphasis on positioning the corporation for piloting new energy management strategies.

The Business Plan provides Key Performance Indicators (KPI's) as a means of measuring performance in specific, relevant areas of business. With the introduction of the new provincial funding formula and related targets, some of Housing York Inc.'s KPI's have been replaced with new 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 3.29%, an increase accepted by the Service Manager for 2005 and 2006 with estimated adjustments for property acquisitions. Costs related to major repairs and replacement expenditures are based on the 10-year capital replacement plan. The 2005 results are unaudited estimates which are considered preliminary and subject to minor change.

2.2 Budget Highlights

The 2006 Budget is a transition budget from the old funding methodology to the new. While the new funding model is only applicable to the Provincial Reform program (by 2006 year-end 11 of 30 properties), the presentation format has been applied to all of Housing York Inc.'s programs for consistency.

Three new properties are budgeted for the first time in the Housing York Inc. portfolio. Accordingly, the analysis has also been adjusted to reflect a base budget of the existing portfolio in the 2005 Budget, as well as the annualization component identifying the incremental impact of the new buildings. This is a familiar presentation format already in use in York Region however it does not alter the formula driven calculations used by Housing York Inc. for budgeting revenue, expenses or subsidy entitlement.

The 2006 Operating Budget for Housing York Inc. reflects an increase of 4.7% in the base operating expenses. With the annualization of the new building budgets, the incremental increase for operating expenses is 14.5% over the 2005 Budget.

The Major Repairs and Replacement base budget will increase by $571,900 or 29.1% over 2005 Budget levels with funding from the capital reserve or surplus operating funds as specified by program regulations. A further $28,000 will be spent in the newly acquired buildings, pushing the total increase in capital spending to $599,900 or 30.5% higher than last year. This increase was projected in the 10 year capital plan and reflects the life cycle of building systems.

Some general highlights to note:

- Revenue and expenditure predictions for 2006 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.
- Utility costs continue to be unpredictable and could influence spending by the end of 2006.
- Major Repairs and Replacement expenditures are expectedly higher than previous years in the Provincial Reform program, as these buildings reach an average age of 15 years.
- The subsidy estimates are consistent with the approved 2006 Regional budget.
- The additional subsidy funding for the transferred buildings are not incremental costs to York Region as these funds would have been allocated to the former housing providers responsible for the properties.

3. BACKGROUND

The Regional Municipality of York directly manages the operations of Housing York Inc. 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*.

Housing York Inc. is required to obtain Board approval of their annual budget which is subsequently submitted to the Service Manager in accordance with program requirements.

The 2005 Budget was based on a count of 1,753 units in 27 buildings. By the end of 2006, Housing York Inc. will be managing 1,927 units in 30 buildings.

The Housing York Inc. 2006 Business Plan and Budget is attached to this report. (*see Attachment 1*).

4. ANALYSIS AND OPTIONS

Page 5 of the Business Plan provides a summary of the total 2006 Budget submission which includes base and annualization. *Attachment 2* provides a more detailed comparison of the 2006 base budget compared to 2005 along with the impact of annualization caused by the addition of three new buildings.

Where estimated results are provided for 2005, it should be noted that the outcomes are provided for preliminary assessment only. A more comprehensive review of the 2005 actual results will be provided in a separate report in June 2006 when the year-end financial statements are submitted for approval.

The increasing size of the portfolio makes budget to budget comparisons with prior years less valuable. However, the introduction of a new KPI is beneficial in comparing trends and performance and this is discussed further in Section 4.1.2.

The 2006 Budget predicts an operating surplus of $97,000 will be generated, of which $23,000 would be allocated to Housing York Inc.'s capital reserve for Regional projects and the balance of $74,000 to Retained Earning as shown in the attachments.

4.1 All Housing Programs—Operating

4.1.1 Revenue

Operating revenue is comprised primarily of rental income augmented with minor miscellaneous revenue from laundry and parking facilities.

Total operating revenue of $11,412,000 is calculated based on an expected mix of Rent-Geared-to-Income (RGI) and market units. The increase in 2006 base operating revenue compared to the 2005 Budget is approximately $267,000 or 2.6% higher, however, with the incremental budget associated with the new buildings, the total increase in operating revenue is $1,152,000 or 11.2% higher than last year's budget.

Base subsidy eligibility of $7,894,000 is calculated on the new provincial benchmarks, where applicable, and predefined formulas in Public Housing. This portion of the subsidy budget is $622,000 or 9.5% higher than 2005 entitlements, and with annualization for the new buildings the difference is $1,373,000 or 21.1% higher. As noted earlier, the formula-driven calculations have been endorsed by the Service Manager during the budget preparation process and reflected in the Region's approved budget. Eligible subsidies redirected to Housing York Inc. for the transferred buildings in the portfolio are not new costs to the Region.

The total revenue increase for base and annualization is $2,525,000 or 15% higher than the 2005 Budget.

4.1.2 Operating Expenses

The base increase in operating costs, excluding Public Housing capital, is approximately $706,000 or 4.5% higher than the 2005 Budget. Higher utility costs account for almost $300,000 of this increase. A salary reclassification for the building superintendent position in 2005 accounts for another $191,800 in 2006 while the costs for the remaining staff serving Housing York Inc. increased by about $89,700.

The operating expenses incurred by the transferred building increase operating expenses by $1,650,000 bringing total operating costs to $18,058,000 or 15% higher than the 2005 Budget.

4.1.2.1 Efficiency Measure

The new funding formula strengthens effective cost management by using a measurement known as Manageable Cost per Unit. It includes maintenance and administration costs, insurance and bad debts expense. Utilities, mortgage payments and property taxes are excluded. Over time this new indicator allows for easy year-over-year comparisons and comparisons to other providers.

The measurement has been adopted by Housing York Inc. as a KPI for efficiency in all of its programs. Table 1 identifies the target that was established for Housing York Inc. using the provincial benchmark formula for Provincial Reform. The other programs use comparable calculations accepted by the Service Manager.

Table 1
Manageable Cost Per Unit

	2005 Estimated	2006 Target	2006 Budget
Provincial Reform	$2,754	$2,985	$2,982
Public Housing	$2,517	$2,812	$2,807
Regional Housing Program	$2,608	$2,874	$2,690
HYI Average	$2,626	$2,890	$2,826

4.2 All Housing Programs – Major Repairs and Replacement

The Business Plan identifies three areas of interest:

1) Planned expenditures by category for the 2006 – 2008 period compared to 2005 Budget and estimated results.
2) A list of major repairs and replacement projects greater than $50,000 for the period 2006 – 2008 by municipality and building.
3) The expected impact on the capital replacement reserve fund applicable to the Provincial Reform Program and Regional Program.

The total investment that will be made in the buildings in 2005 is $2,564,000 comprised of $1,150,000 in Public Housing funded from operating and $1,406,000 in Provincial Reform funded from reserves. As anticipated capital expenditures are increasing in the Provincial Reform program by 53.5% over 2005 due to the age and condition of the buildings. However, the value of the capital reserve will actually increase in 2006 as a result of a one time transfer-in of $925,000 from a property acquisition along with ongoing mandatory contributions and investment income earned throughout the year.

4.3 Other Initiatives

Decisions made by the Board of Directors in prior years become visible in the 2006 Budget. Both the Business Plan and the chart in *Attachment 2*, 2006 reflect the first year of spending from Retained Earnings with an estimated expenditure of $1,140,800 over the three year business planning period. The estimated value of retained earning is $3,065,000 pending subsidy settlements for 2005.

Full details will be provided to the Board later this year related to the proposed expenses for the Energy Management Strategy and the Emergency Power Plan. Approximately $429,000 is budgeted in 2006 for both projects.

The final initiative pertaining to Housing York Inc.'s work program in 2006 provides property management services to Transition and Supportive Housing in York Region, specifically Leeder Place. A Budget for 2006 is not requested at this time, but once Housing York Inc.'s role is clearly defined, financial details will be provided to the Board.

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 program subsidies have been calculated according to provincial program benchmarks and cost factors endorsed by the Service Manager.

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/sd/dm

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