THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
November 12, 2008
Report of the
General Manager

INSURANCE RESERVE UPDATE

1. RECOMMENDATION

It is recommended that:

1. Reporting against the Housing York Inc. property damage and personal liability insurance reserve will, in the future, be reported through the Corporation's mid-year and year-end financial reports.

2. PURPOSE

This report provides assurance that the insurance reserve for property damage and personal liability is meeting its intended objective based on three years of financial activity.

This report also recommends that future reporting on this reserve be included in the Corporation's semi-annual financial reports.

3. BACKGROUND

Insurance Reserve established to mitigate insurance claims below the deductable threshold

Housing York Inc. maintains an insurance policy for property damage and personal liability under a program administered by the Social Housing Services Corporation. York Region risk management staff provide advice and guidance on Housing York Inc. insurance related matters when needed.

On September 13, 2006 the Board of Directors established an Insurance Reserve in the amount of $200,000 to manage unpredictable insurance losses below the deductable amount.

The initial contribution to the reserve was funded from Retained Earnings. Any expenses related to insurance, such as deductible payments or claims that are below the deductible threshold, are paid from the reserve rather than operating expenses.

On an annual basis, the Corporation contributes $50,000 to the reserve from its operating budget in order to maintain sufficient funding levels. The goal is to mitigate fluctuating costs that would otherwise be experienced in periods of high insurance activity. The reserve is maintaining an adequate reserve balance to manage current and potential claims.

4. ANALYSIS AND OPTIONS

Funding to the reserve is adequate

The reserve is serving its intended purpose with insurance losses being charged to the reserve as a means of stabilizing costs associated with claims.

So far, the annual funding has proven sufficient for the claim activity experienced to date. The 2008 balance is estimated to be just over $200,000 which is approximately equal to the original reserve contribution from 2006. With a growing portfolio this is viewed to be a suitable balance to maintain at this time.

Table 1 identifies financial activity in and out of the reserve since inception.

Table 1
Summary of Insurance Reserve Activity

	2006 Actual	2007 Actual	2008 Estimate
	0	$151,930	$181,386
Approved Contribution to Reserve	200,000	50,000	50,000
Expenditures from Reserve	(48,070)	(20,544)	(25,000)
Balance at year end – December 31	$151,930	$181,386	$206,386

2008 expenses against the reserve is a conservative estimate

A fire in a townhouse unit has been reported as a property claim in 2008. This claim will exceed the deductible limit. Structural repairs are required making the restoration lengthy and costly. The current insurance claim is estimated at over $100,000. The deductible amount and the lost rental income will be claimed from the reserve.

There are several small claims that are in the process of settlement which are below the deductible threshold. These will be paid from the insurance reserve and are included in the 2008 expenditure forecast.

Other property claims may occur later in the year that would affect the expenditures forecast; however, based on prior history the reserve is sufficiently funded to accommodate these.

Liability claims may affect reserves in future years

Some incidents related to personal injury do not present themselves as claims until months or years later. This happens if an incident is not reported at the time of the event, or it takes an extended period for the insurers to settle a claim. For this reason, the reserve should be maintained at a level that reflects the future possibility of this type of insurance loss, as well as the property damage claims discussed earlier.

Risk mitigation strategies continue in 2008

York Region risk management staff are reviewing five Housing York Inc. buildings this year to offer cost effective strategies for mitigating property damage and personal liability at the sites. This will augment the insurance appraisals that were conducted on the entire portfolio in 2007.

The Housing York Inc. insurance policy is provided through the social housing insurance program. The policy was reviewed and updated this year to ensure coverage is consistent with current replacement values.

This report recommends future reporting be included in semi-annual financial reports

Three years of activity against the insurance reserve reveal satisfactory results suggesting the reserve is funded sufficiently to meet its objectives. In lieu of a dedicated report, actual results against the reserve would be reported through the mid-year report and the audited annual financial statements in the same fashion as Housing York Inc.'s capital reserve. Dedicated Board reports would be tabled if there are extenuating insurance matters or policy decisions affecting the reserve balance.

5. FINANCIAL IMPLICATIONS

Given the uncertainty surrounding frequency, timing and cost of insurance claims, budgeting a consistent level of funding to the reserve on an annual basis helps Housing York Inc. manage the financial impact in a predictable way.

Housing York Inc. will continue to monitor insurance losses against the reserve to determine if any future changes in funding are warranted.

6. LOCAL MUNICIPAL IMPACT

Ongoing risk mitigation strategies help ensure that Housing York Inc. buildings are sufficiently insured and that potential risk factors have been identified. This lends itself to making buildings more secure for all Housing York Inc. communities throughout local municipalities.

7. CONCLUSION

The Housing York Inc. Insurance Reserve is maintaining sufficient funds to accommodate insurance losses that are anticipated through the normal delivery of services. Future insurance reserve reporting will be included in routine financial reports at mid-year and year-end unless there are extenuating circumstances affecting the reserve balance.

For more information on this report contact Sylvia Patterson, Assistant General Manager at Ext. 2091.

The Senior Management Group has reviewed this report.

Recommended by:	Approved for Submission:
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October 30, 2008

SP/hf

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