THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
November 9, 2005
Report of the
Treasurer

HOUSING YORK INC. INVESTMENT POLICY
FOR CORPORATE RESERVES AND SURPLUS FUNDS

1. RECOMMENDATIONS

It is recommended that:

1. The Board of Directors approve the Investment Policy for Housing York Inc.

2. The Board of Directors receive investment results for 2004 and 2005 year-to-date.

2. PURPOSE

The purpose of this report is to seek approval for a formalized investment policy for Housing York Inc. (HYI) applicable to its various types of reserves and periodic surplus operating funds (*see Attachment 1*).

This report also includes information pertaining to the 2004 and 2005 year-to-date investment performance for Housing York Inc.

3. BACKGROUND

In May 2003, the Board approved several recommendations concerning the management of the Corporation's reserves and surplus operating funds. This included delegation of authority to the Treasurer to make investment decisions on behalf of Housing York Inc. The proposed policy reflects and updates those principles.

Like The Regional Municipality of York's policy, the proposed investment policy for HYI identifies four key objectives which are:

1. Adherence to statutory requirements.
2. Preservation of capital.
3. Maintaining liquidity.
4. Earning a competitive rate of return.

Additionally, the standard of care for managing HYI investments is discussed in the proposed policy where due diligence, impartial decision making, disclosure and other internal controls are expected to be equivalent to York Region policy.

4. ANALYSIS AND OPTIONS

4.1 Capital Reserve and Equipment Replacement Fund

This section discusses legislative requirements and intent of the proposed policy.

All housing providers regulated by the *Social Housing Reform Act, 2000* are required to participate in a “pooled” capital reserve investment program where the intent is to maximize returns through larger investment portfolios. The investment pool is managed by Phillips, Hager & North who was selected by the Social Housing Services Corporation through a formal bidding process.

Housing York Inc. must participate in this program for the capital reserves held in the Provincial Reform Program. Capital reserves are maintained to fund major repairs and replacements in 11 of the Corporation’s 29 properties. The 17 properties in the Public Housing Program do not have a capital reserve fund and therefore are not required to participate in the investment program. Armitage Gardens is not regulated by the *Social Housing Reform Act, 2000,* however, as the property matures and generates its own capital reserve, investment in the Phillips, Hager & North pooled program will be considered on a voluntary basis.

The proposed policy stipulates that Housing York Inc. will deposit all mandatory capital reserve funds in the pooled program except for an amount equal to the planned spending in the current year. Funds will be held locally in an interest bearing bank account specifically earmarked for capital expenditures. The approved annual budget and associated capital plans dictate the movement of funds in and out of the pooled fund with the ultimate goal of maintaining the investment at maximum value for the long term. Funds that are not invested in the pool program are maintained in an interest bearing bank account specifically designated for capital improvements in the buildings.

Housing York Inc. deposited $5,587,468 into the pooled fund in November 2003. The reported value of the fund is $5,762,941 at December 31, 2004. The portfolio mix and return on investment is further discussed in Section 4.3.1 of this report.

The Armitage Gardens reserve is valued at $6,405 at the end of December 2004 and is currently invested in the capital bank account earning interest.

4.2 Other Restricted Funds, Retained Earnings and Operating Surpluses

Other potential sources of investable funds not related to the capital reserve pooled funds are also included in the proposed policy. For clarification purposes, funds in these categories are defined as:

- Other restricted funds are applicable to the Provincial Reform properties only and represent the Last Month's Rent Reserve and accrued interest. These funds are restricted as they may be payable at any time to vacating market tenants who paid the advance funds. At the end of December 2004 this reserve is valued at $195,222.

- Retained earnings are the accumulated operating surpluses generated in prior years by the Provincial Reform program. These funds may only be spent with Board approval. At 2004 year end, the retained earnings account is valued at $3,068,774.

- Surplus operating funds occur when cash inflow exceed cash outflows for short periods of time. Cash flows for any of the housing programs can generate surplus funds depending on the timing associated with collection of the monthly rent roll and routine disbursement activity.

The proposed policy specifies that any of these funds could be invested at the Phillips, Hager & North pool on a voluntary basis. However, to maximize investment choices Housing York Inc. will use the Policy, Risk and Treasury Branch in York Region to seek out investment options that are comparable to other Regional investments.

The objective of this strategy recognizes that funds in these categories are typically short term investments, unlike the pooled investment program which reflects a longer term. The Policy, Risk and Treasury Branch can provide its expertise in a way that advantages Housing York Inc. The range of investment options are different than the funds available from Phillips, Hager & North and more suitable for short term environments. Additionally, the management fees that Phillips, Hager & North charge are not applicable on investment instruments arranged through Policy, Risk and Treasury Branch. This would maximize HYI's return on investment for short term lower value instruments.

4.3 2004 and 2005 Year-to-Date Investment Activity and Results

4.3.1 Capital Reserve and Equipment Replacement Fund

In 2004, there were no deposits or withdrawals from the pooled capital reserve invested with Phillips, Hager & North as there were sufficient funds in the capital bank account to manage the capital expenditures throughout the year.

As noted, the 2004 year end value of the pooled capital investment was $5,762,941 which reflects an increase of $151,659 or 2.7% compared to December 31, 2003. The asset class at year end is equally invested with 49.2% in the Cash and Short Term Fund and 50.8% in the Fixed Income Fund based on the Housing York Inc risk tolerance profile.

For informational purposes, the pooled fund is subject to an internal quarterly review. The year-to-date value of the fund on June 30, 2005 is $5,914,920. The increase of $151,979 since December 31, 2004 includes a deposit of $79,034 that was made in May 2005 when the newly acquired Woodbridge Lane capital reserve was transferred into the Housing York Inc. investment pool. The asset mix is being maintained at the same ratio as 2004 with 48.8% invested in Cash and Short Term Fund and 51/2% in the Fixed Income Fund.

A withdrawal is expected from the pooled investment fund in 2005 to fund capital expenditures approved in the business plan and budget. This withdrawal is forecast to be approximately $435,300.

On December 31, 2004 the capital bank balance was $405,725. These funds have since been used to pay capital expenses accrued from 2004 and the balance on June 30, 2005 stands at $18,557. In 2004, the average interest rate paid by the bank was 2.1% and so far in 2005, interest is averaging 2.35%.

4.3.2 Other Restricted Funds, Retained Earnings and Operating Surpluses

These funds were held in the operating bank account in 2004 earning the same rate of return as the capital bank account. Program rules specify that any interest earned on the account is shared with the Service Manager through a defined formula-driven calculation. In 2004, Housing York Inc. recognized $32,051 interest income.

The operating bank account balance was $4,693,102 on December 31, 2004 and has increased to $5,467,347 by June 30, 2005. A review of surplus funds available for short term investment is currently underway with York Region staff.

5. FINANCIAL IMPLICATIONS

The proposed investment policy provides for the prudent fiscal management of Housing York Inc. capital reserves, restricted funds, retained earnings, and operating surpluses.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications associated with this report.

7. CONCLUSION

This report recommends approval of an investment policy for Housing York Inc. and provides 2004 investment results based on audited financial statements. A status update of current investments and bank balances for year-to-date 2005 is also provided.

The Senior Management Group has reviewed this report.

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November 2, 2005

Attachment - 1
KC/sd

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