THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
October 10, 2007
Report of the
General Manager

HOUSING YORK INC.
INSURANCE RESERVE UPDATE

1. RECOMMENDATION

It is recommended that:

1. This report be received to meet the Board's approved policy for reporting back on the insurance reserve status.

2. PURPOSE

In order to ensure that contributions to the Housing York Inc. insurance reserve are maintained at an adequate level, the Board of Directors has asked for an annual report on the value of insurance losses charged to the reserve.

3. BACKGROUND

On September 13, 2006 the Board of Directors approved the establishment of an insurance reserve in the amount of $200,000 to put a process in place for managing insurance losses in a predictable way.

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 will contribute $50,000 to the reserve from its operating budget in order to maintain sufficient funding levels. The goal is to smooth out fluctuating costs that would otherwise be experienced in periods of high insurance activity.

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.

4. ANALYSIS AND OPTIONS

With one year of history under review the reserve is serving its intended purpose with insurance losses being charged to the reserve as opposed to unplanned operating expenses.

4.1 Funding to the reserve proving adequate

The initial contribution of $200,000 to the reserve from retained earnings, along with the annual contribution of $50,000 from the operating budget, was based on historical claims data. So far, the funding is sufficient for the claim activity experienced to date.

Several years of claims history will be required to allow appropriate analysis to establish a benchmark for the amounts to be held in reserve.

Table 1 identifies 2006 activity from the date of inception of the reserve as well as 2007 estimated activity.

Table 1
Summary of Insurance Reserve Activity

	2006 Actual	2007 Estimate
Opening Balance – January 1	0	$151,930
Approved Contribution to Reserve	$200,000	$50,000
Expenditures from Reserve	(48,070)	(20,000)
Balance at Year-end – December 31	$151,930	$181,930

4.1.1 2007 expenses against the reserve is a conservative estimate

The current year estimate reflects known activity. It's possible other property claims could occur later in the year that would affect the expenditures forecast; however, the number or frequency of claims cannot be predicted. Based on prior history the reserve is sufficiently funded to accommodate 2007 events.

This year a fire in a townhouse unit is the only property claim that has been reported that will exceed the $10,000 deductible limit. Structural repairs are required making the restoration lengthy and costly. Lost rental income will also form part of the claim. The current insurance claim for this incident is estimated at over $90,000.

Several minor property damage claims are in the process of settlement. These are below the deductible threshold and are included in the 2007 estimate.

4.2 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 possibility of this type of insurance loss as well as the property damage claims noted above.

4.3 Risk mitigation strategies under way in 2007

Two initiatives are planned for later this year to ensure Housing York Inc. maintains its due diligence on insurance related matters:

- Insurance appraisals will be conducted on all buildings to update insurable values and confirm that Housing York Inc.'s insurance policy provides sufficient coverage.
- Property assessments by York Region risk management staff will commence on selected buildings to determine cost effective strategies for mitigating property damage and personal liability at the sites.

5. FINANCIAL IMPLICATIONS

Given the uncertainty surrounding frequency 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. currently enjoys a good claims history. However, it is prudent to continue monitoring insurance losses against the reserve to determine if any future changes in funding the reserve are warranted.

6. LOCAL MUNICIPAL IMPACT

There is no direct impact on local municipalities; however, the risk mitigation strategies proposed for 2007 will 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 Housing York Inc. tenants.

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 for housing operations. Annual reports to the Board will support the further development of benchmarks and risk management policy.

For more information on this report contact Sylvia Patterson, Assistant General Manager, Housing York Inc., Housing Services Branch in the Community and Health Services Department.

The Senior Management Group has reviewed this report.

Reviewed by:

Sylvia Patterson
Assistant General Manager

Recommended by:

Joann Simmons
General Manager

October 2, 2007

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