THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
October 14, 2009
Report of the
General Manager
and
Treasurer

MID-YEAR FINANCIAL STATUS REPORT

1. RECOMMENDATION

It is recommended that:

1. This report be received for information.

2. PURPOSE

This report provides the status of mid-year revenue and spending against the 2009 Budget for operating costs, as well as the year-end operating forecast, capital projections and estimated spending against reserves. There is also an update on:

- The five-year energy management strategy including this year's borrowing requirement.
- The economic stimulus initiatives that affect Housing York Inc. (HYI) in 2009.
- The delivery of the new Leeder Place Family Shelter, located in the Town of East Gwillimbury.

3. BACKGROUND

It is good business practice for housing providers to provide an interim financial report to their Board to account for year-to-date budget variances and anticipated year-end outcomes. The year-end forecast incorporates year-to-date trends as well as known emerging issues for the balance of the year.

A consolidated financial reporting format is used for this report. However, the portfolio is managed as separate housing programs due to differences in funding formulas and program rules. Surplus or deficit positions in these distinct programs cannot be offset against each other and therefore are reported to the Service Manager separately.

Two additional new funding sources are currently being introduced:

- Social Housing Renovation and Retrofit Program
- Social Housing Loan

The availability of new funding provides opportunities that HYI welcomes. Many capital and energy management jobs are being advanced from current and outlook years to take advantage of the programs. Therefore, some of the estimates for capital jobs that were originally identified in the 2009 Budget are subject to change pending final approval of the new funding.

During the first six months of 2009, the following notable events took place:

- HYI participated in the identification of eligible capital jobs for Social Housing Renovation and Retrofit Program funding.
- HYI commenced planning for the organizational impacts related to the economic stimulus.

4. ANALYSIS AND OPTIONS

4.1 Mid-year revenue and expenses tracking close to budget

The mid-year financial position is positive. HYI is sustaining its revenue very close to budget estimates. Rent revenue and investment income is about $85,000, or .5% below plan. Further discussion on revenue is presented in Section 4.2 related to the year-end forecast.

On the expenditure side, administration costs are tracking lower than budget due to delayed hiring of staff. Utility costs are also tracking below budget as a result of conservation initiatives in the Energy Management Strategy. These combined savings are significant and more than offset modest overspending in other areas. Expenses are also discussed in further detail in Section 4.2.

Overall year-to-date financial results reflect a stable position. HYI is working within its budget envelope and there are no significant concerns with revenue or expenses at this time.

4.2 Year-end forecast—operating surplus is expected; potential to reduce subsidy requirement

HYI is projecting it will generate an operating surplus of approximately $98,000 which is marginally below the financial objectives identified in the 2009 Business Plan and Budget.

Table 1 summarizes the 2009 forecast:

Table 1
Consolidated Year-end Forecast ($000's)

	2009 Budget	2009 Forecast	Variance $ F/-U	Variance % F/-U
Revenue				
Tenant Rents	13,616	13,504	-112	-0.8%
Other Income (1)	-	231	231	-
Subsidy - York Region	7,638	7,121	-517	-6.8%
Subsidy - Federal	1,319	1,319	0	0.0%
Total Revenue	**22,573**	**22,175**	**-398**	**-1.8%**
Operating Expenditures				
Operating	20,859	20,541	318	1.5%
Public Housing Capital	1,545	1,280	265	17.2%
Total Expenditures	**22,404**	**21,821**	**583**	**2.6%**
Operating Surplus before Allocations	**169**	**354**	**185**	**109.5%**
Residual Cost of Tenant Survey Project	25	25	-	-
Incentive Revenue and Borrowed Funds Allocated to Energy Management Reserve	-	231	-231	-
Operating Surplus	**144**	**98**	**-46**	**-31.9%**
Capital Reserves (Provincial Reform				
and Regional Housing)				
Contribution to Reserves	1,547	1,402	145	-
Expenditures	-1,547	-1,402	-145	-
Internal Reserve Expenditures				
Energy Management	542	492	50	9.2%
Emergency Power Plan	250	395	-145	-58.0%
Total Retained Earnings Expenditures	**792**	**887**	**-95**	**-12.0%**

(1) Other Income includes $66,000 external incentive funding for the installation of solar walls and $165,000 borrowing from York Region Innovation Fund. Both sources will partially fund year two of the five-year Energy Management Strategy. Borrowed funds are non-interest bearing and subject to repayment from future utility savings.

The lower Tenant Rent revenue of $112,000 below budget is comprised of two components. Rent revenue is forecast to be $69,000 or .5% less than budget. Interest income is also included in this category and is $43,000 or 28.4% below plan. Both variances are linked to the weaker economy and are manageable in the overall forecast.

HYI's subsidy eligibility is lower overall due to revised forecast calculations which note savings in Operating and Public Housing capital.

The operating savings of $318,000 or 1.5% of budget offsets the revenue shortfall noted earlier. There is minor overspending reported in maintenance material and services which is more than offset by savings in administration and utility costs.

The Public Housing capital repair jobs will be completed as planned but funding for some of the capital work has been shifted to new infrastructure funding Social Housing Renovation and Retrofit Program or the loan program. Further commentary is provided in Section 4.3.

The utility expense forecast is considered the most challenging to predict because:

- Incentive revenue from third parties for conservation retrofits is shrinking and is subject to timing delays.
- The provincial funding formula for social housing reduced subsidy for gas and hydro in 2009; however, gas costs are trending higher than benchmark subsidy estimates predicted.
- Energy savings are subject to price and consumption variables.
- Utility savings are dependent on the completion of retrofits. Factors such as weather and the availability of skilled third-party resources can influence the work schedule.

Further information on 2009 utility savings can be found in Section 4.4.

Overall revenue will exceed expenditures by $354,000. Of that amount, $231,000 is external revenue specified for energy retrofits and will flow to the Energy Management Reserve as indicated in Table 1. A further $25,000 will be allocated to the residual balance of the tenant survey project as defined in the 2009 Business Plan. This will leave an estimated bottom line surplus of about $98,000 compared to $144,000 in the budget estimate.

Typically, operating surplus is shared with the Service Manager on a 50/50 basis. It is anticipated that housing providers, including HYI, will be permitted to retain the Service Manager's share of the surplus under certain conditions. HYI intends to pursue its eligibility to retain its entire operating surplus.

4.3 Major Repairs and Replacement (Capital) Expenditures—new funding opportunities reduce budget requirements

The capital program originally approved in the 2009 Budget has undergone several adjustments following the announcement of the economic stimulus or Social Housing Renovation and Retrofit Program and provincial loan opportunities. The Board of Directors approved HYI's participation in the Social Housing Renovation and Retrofit Program on June 10, 2009.

Table 2 summarizes the approved capital budget for 2009 and the year-end forecast compared to budget. It further summarizes the additional funding recently made available and the related expenditure forecast. The first year of the Social Housing Renovation and Retrofit Program follows a fiscal period ending March 31, 2010.

The savings of $409,000 against the original capital budget is an immediate financial benefit to HYI and York Region. Approximately $265,000 that would have been funded from Public Housing subsidy has been shifted to the new funding sources. About $144,000 that would have been drawn from HYI's capital reserves has also been redirected to the new alternative funding.

The stimulus funding and social housing loan add over $2.0 million to HYI's capital program. Section 4.5 of this report provides current spending status of the new funding.

Table 2
2009 Major Repairs and Replacement Forecast Compared to Budget ($000's)

Program	Funding Source	2009 Budget	2009 Forecast	Variance $ F/(U)	Variance % F/(U)
Public Housing (872 units)	Operating Budget (subsidy)	1,545	1,280	265	17.2%
Provincial Reform (937 units)	Capital Reserve	1,467	1,398	69	4.8%
Region Housing (118 units)	Capital Reserve	80	5	75	93.7%
Total Approved Capital Budget and Forecast		**3,092**	**2,683**	**409**	**13.2%**
New Funding:					
Social Housing Renovation And Retrofit Program	Grants	1,900	1,900	-	-
Social Housing Loan	Loans	500	500	-	-
Total Capital		**5,492**	**5,083**	**409**	**7.4%**

4.4 Energy Management Strategy—forecast anticipates borrowing approximately $165,000

In 2009, HYI is forecasting retrofit expenditures of $491,000 against an approved budget of $541,800. Borrowing approximately $165,000 is anticipated during the last quarter. Table 3 summarizes the funding and expenditure projections.

Table 3
Summary of Year Two of Energy Management Strategy

2009 Energy Management Expenditures:		**$491,000**
Funding:		
Anticipated Utility Savings	$260,000	
Third Party Incentive Revenue	66,000	
Estimated Borrowing from York Region Innovation Fund	165,000	
Funding for 2009 Energy Management Strategy		**$491,000**

The energy management program that was approved by the Board and Council is adaptable enough to take advantage of any reasonable opportunity that presents itself during the five-year project. Many jobs in the Energy Management Strategy will qualify for new funding programs recently announced. HYI will take advantage of grants and incentives as preferred funding sources whenever possible to reduce the need to borrow.

Borrowing from the York Region Innovation Fund is subject to repayment from future utility savings. Expenditures for the life of the five-year strategy will not exceed the approved total of $3.5 million.

4.5 New funding opportunities expand major repairs and energy management jobs for two years

Two new funding sources reduce the need to draw on HYI capital resources and regional subsidy for Public Housing capital. At the same time, capital work has been significantly expanded to maximize the new funding sources as noted in Section 4.3. Flexibility and speed to take up these new funds is a priority for HYI.

- **Social Housing Renovation and Retrofit Program**
  Following the announcement of this new program, HYI identified 45 jobs that met the funding criteria. Indications are that HYI will receive about $1.9 million in the first year. HYI has already formally submitted nine jobs totalling $898,303 under this program which is approximately 47.2% of the anticipated first year funding. HYI is forecasting it will use all available grant money.

- **Social Housing Loan**
  York Region is making a loan available to housing providers to carry out needed capital repairs. HYI has identified up to $500,000 of loan funding to complete four specific jobs. One job totalling $100,000 is already complete.

The new programs require comprehensive reporting to the Service Manager. The Board will also be updated at strategic intervals.

4.6 Spending on Emergency Power Reserve is greater than expected; cost for permanent generators exceed estimates

The forecast of $395,000 is higher than the 2009 Budget of $250,000, but within the approved envelope for the multi-year program. Overspending this year is the result of significantly higher than planned costs for a generator at Keswick Gardens in the Town of Georgina. The job is proceeding despite the additional cost; however, the balance of the program is under review to determine if other emergency power options are feasible in view of the new pricing information related to permanent generators.

Retrofitting Keswick Gardens with emergency power services is considered a priority because:
- The building services vulnerable seniors and an adult day centre.
- It will also act as a emergency centre for other northern HYI properties.

The projected balance in the Emergency Power Reserve at year-end will be $92,829.

4.7 New Leeder Place Family Shelter added to portfolio

The new Leeder Place Family Shelter, located at 18838 Highway 11, in the Town of East Gwillimbury, transferred to HYI in August 2009. This LEED (Leadership in Energy and Environmental Design) certified building is valued at approximately $2.9 million which is funded mostly from the Region’s Social Housing Reserve. It will be added to the HYI balance sheet at year-end.

5. FINANCIAL IMPLICATIONS

With an operating surplus of approximately $98,000 projected, HYI is anticipating a successful year against its 2009 operating budget. HYI plans to make an application to York Region to retain its entire operating surplus, using the Service Manager portion to increase contributions to the capital reserve.

A reduced subsidy requirement is expected due to some capital work shifting to new funding models

The need for subsidy funding from York Region is expected to be lower than budget by $517,000 or 6.8% as several capital jobs identified in the 2009 Budget will be redirected to short-term funding sources.

Capital program intensifies due to economic stimulus and loan

The Social Housing Renovation and Retrofit Program and the Social Housing Loan will inject over $2.0 million in major repairs and replacement over the next year, in addition to the original approved capital budget of $3.1 million. HYI will be reporting the progress on a regular basis as it strives to maximize the new funding to the fullest amount possible.

6. LOCAL MUNICIPAL IMPACT

HYI provides affordable housing throughout the local municipalities in York Region. In addition to maintaining the buildings in a comfortable and safe condition, HYI is making significant capital investment for the next two years to maximize recently announced grant funding.

7. CONCLUSION

HYI is forecasting an operating surplus of approximately $98,000 in 2009 and will require lower subsidy funding as a result of alternative capital repair money becoming available.

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

The Senior Management Group has reviewed this report.

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