THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
September 10, 2008
Report of the
General Manager
and
Treasurer

2008 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 year-to-date spending against the 2008 budget for operating costs, as well as the year-end operating forecast, capital projections and estimated spending against reserves.

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 programs due to differences in funding formulas and program rules. Surplus or deficit positions in these distinct programs cannot be netted against each other and this report reflects this assumption.

The funding programs which comprise the Housing York Inc. portfolio are:
- Provincial Reform – 11 buildings
- Public Housing – 17 buildings
- Regional Housing – 3 buildings (including Tom Taylor Place effective 2008)
- Transitional and Supportive Housing, also known as Blue Door Shelters

During the first six months of 2008, the following notable events took place:

- Held inaugural meeting of the new Tenant Reference Group.
- Developed green procurement strategy to be piloted at Tom Taylor Place, scheduled for opening in October 2008.
- Installed compact fluorescent light bulbs in all seniors' apartment buildings in the Power Stream service area thanks to the utility making the lighting and installation labour available at no charge.

4. ANALYSIS AND OPTIONS

Mid-year results tracking favourably—rent revenue higher than budget; expenses lower than budget

Rental income is ahead of plan and will contribute to an operating surplus at year-end. There is modest budget pressure on building operating costs that will be offset with lower utility expenses. Overall Housing York Inc. will require less subsidy funding than initially expected.

While operating revenue and expenses are trending favourably, the following mid-year observations are noted:

- Market rent revenue is 13% higher than budget in the Provincial Reform Program as there is a higher number of market units than estimated in the budget; correspondingly rent-geared-to-income rent is approximately 5% lower than budget.

- Market rent revenue is slightly less than planned in the Regional Housing Program as the budget assumed that Tom Taylor Place would be generating income in June and the opening has been rescheduled to October.

- Utility costs are tracking well below budget, generating savings that can be reallocated towards the energy management program. The reduced utility costs are a result of both reduced consumption, related to the energy management program, and lower than forecasted utility rates.

Like prior years there is continued cost pressure on building materials and services. They are not significant and will be managed within the overall budget. The service cost increases are in part related to fuel surcharges that are becoming common and prices for services are generally higher than expected.

In general, the mid-year financial position is positive.

Year-end forecast—operating surplus of $275K exceeds budget expectations

Higher market rent and lower utility costs are the key contributors to a financial surplus at year-end.

The following table summarizes the 2008 forecast.

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

	2008 Budget	2008 Forecast	Variance $ F/(U)	Variance % F/(U)
Revenue				
Tenant Rents and Other	13,219	13,314	95	0.7%
Subsidy – York Region	7,205	6,849	(356)	(4.9%)
Subsidy – Federal	1,319	1,319	-	-
Total Revenue	21,743	21,482	(261)	(1.2%)
Operating Expenditures				
Operating	20,040	19,446	594	3.0%
Public Housing Capital	1,364	1,364	-	-
Total Expenditures	21,404	20810	602	2.8%
Operating Surplus before One-time Expenditures	339	672	341	-
One Time Expenditures (1)	155	155	-	-
Operating Surplus after One-Time Expenditures	184	517	341	-
Estimated Reallocation to Energy Management Repayment (2)	-	250	-	-
Operating Surplus	184	267	-	-
Capital Reserves				
Contribution to Reserves				
Provincial Reform	1,478	1,456	22	1.4%
Regional Program	5	17	(12)	-
Contribution from Reserves (Expenditures)	(1,483)	(1,473)	(10)	(.07%)
Approved Spending from Retained Earnings				
Energy Management Pilot (3)	58	58	-	-
Emergency Power Plan	460	270	190	41.3%
Total Retained Earnings Expenditures	518	328	190	36.7%

(1) Includes non-routine expenditures primarily related to growth and strategic initiatives not normally funded by operating revenue or subsidy.
(2) Estimated utility savings are preliminary as explained in Section 4.4 of this report.
(3) The two year energy management pilot ended June 2008. Subsequent spending is part of the new multi-year energy strategy. See Section 4.4 of this report.

Operating expenses are expected to be lower than budget primarily due to energy savings. It should be noted that the forecast for utility costs and associated savings is preliminary. Due to the ongoing effort to conserve energy in HYI buildings it is difficult to predict outcomes as there is no historical reference point. The year-end actual results in all budget categories ultimately affect operating surplus and subsidy settlement calculations.

Typically operating surplus is shared with the Service Manager on a 50/50 basis. A pending provision allows for housing providers 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.

Major Repairs and Replacement (Capital) Expenditures—essentially on budget

In total the capital program is currently projected to be $10,000 under budget. The Provincial Reform program will be under budget by $22,000 partially offset by $12,000 over spending in the Region Housing program. This stems from an unplanned job at Armitage Gardens where parking lot repairs were completed in partnership with the Newmarket Health Centre to improve safety and access. The variance in this program will be funded from surplus operating funds that Armitage Gardens will generate this year.

Table 2
2008 Major Repairs and Replacement Forecast Compared to Budget ($/000s)

Program	Funding Source	2008 Budget	2008 Forecast	Variance $ F/(U)	Variance % F/(U)
Public Housing (872 units)	Operating Budget	1,364	1,364	-	-
Provincial Reform (937 units)	Capital Reserve	1,478	1,456	22	22
Region Housing (118 units)	Capital Reserve	5	17	(12)	-
Total Capital Budget and Forecast		**2,847**	**2,837**	**10**	**-**

Energy Management Program—utility savings will partially repay investments to date as planned

Hydro and gas costs year to date are trending about 25% below budget and year-end savings of about $550,000 are predicted. A portion of these funds will be directed to repaying funds previously invested in the energy management program.

The energy management program was approved by the Board and Council to be adaptable enough to take advantage of any reasonable opportunity that presented itself during the five year project. The flexibility of the program also facilitates the advancement or deferrals of certain jobs to maximize incentive programs that may be offered by the energy sector. This may cause variations against annual budget estimates but expenditures for the life of the project will not exceed the approved total of $3.5million.

Costs related to the 2008 energy management program will be funded by a loan from York Region. It is doubtful that incentive funding from external sources will be received this year as hoped due to timing and availability. The following table summarizes proposed expenditures.

Table 3
Energy Management Program—Budget and Forecast ($/000s)

Proposed Investment	2008 Budget	2008 Forecast	Variance $	Variance %
Retrofit Investment in Buildings	714	738	(24)	(3.3)%
Contracted Services and Administration	40	53	(13)	(32.5)%
Total 2008 Retrofit Investment	**754**	**791**	**(37)**	**(4.9)%**

Utility savings will be estimated annually and redirected to funds that are borrowed, including the initial investment from Housing York Inc.'s Retained Earnings for the pilot program. For the purpose of this report estimated savings are considered preliminary. Several variables make it difficult to predict borrowing requirements and resultant energy savings in the early stages of this new multi-year program.

A Board report will be tabled this year to provide a further update on the energy management program.

Other reserves and strategic projects—expenditures predicted to equal budget

Currently there are no known events that would negatively affect Housing York Inc.'s restricted funds in 2008. The following summary identifies the budget and year-end forecast for specified purposes already approved by the Board:

1. **Emergency Power Reserve** - the approved spending for 2008 is $460,000 of which $270,000 is forecast for generators at two seniors' properties.
2. **Insurance Reserve** – the annual $50,000 contribution to the reserve will be made as planned. There is currently one major incident in 2008 which will result in a payout of the insurance deductible.
3. **Strategic Projects** – a forecast of $155,000 as approved in the 2008 Business Plan and Budget will be spent on the following projects:
    - Tenant survey project
    - Review of technology software
    - Office renovations to accommodate organizational changes

All three of these initiatives are related to maintaining a positive level of customer service and financial stability during a growth period. A detailed report concerning emergency power provisions, the insurance reserve and the tenant survey project is scheduled for later this year.

5. FINANCIAL IMPLICATIONS

With an operating surplus of approximately $267,000 projected, Housing York Inc. is anticipating a financially successful year against its 2008 operating budget. Housing York Inc. plans to make application to York Region to retain its entire operating surplus, using the Service Manager portion to increase contributions to the capital reserve.

Higher market revenue reduces annual subsidy requirement

As a result of generating higher than planned rent revenue in the Provincial Reform Program, the need for subsidy funding from York Region will be lower than expected by an estimated $356,000 or 4.9%.

Repayment of energy investment anticipated from utility savings

Despite the difficulty in measuring tangible energy savings at this time, it is anticipated that approximately $250,000 will be repaid towards prior year expenditures. A small portion of utility savings will be allocated to accommodate minor cost overruns for building maintenance and services as has traditionally occurred in the past.

6. LOCAL MUNICIPAL IMPACT

Housing York Inc. provides affordable housing throughout the local municipalities in York Region. In addition to maintaining the buildings in a comfortable and safe condition Housing York Inc. is making significant investment in its energy management program and strengthening tenant relationships.

7. CONCLUSION

Housing York Inc. is forecasting an operating surplus of approximately $267,000 in 2008 and will require lower subsidy funding in the Provincial Reform Program as a result.

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.

Recommended by:

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