THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
September 13, 2006
Report of the
General Manager
and
Treasurer

HOUSING YORK INC. INSURANCE RESERVE

1. RECOMMENDATION

It is recommended that:

1. The Board of Directors approve the establishment of an insurance reserve for Housing York Inc. and the initial transfer of $200,000 from retained earnings to provide start up funding.

2. PURPOSE

To obtain approval for the establishment of an insurance reserve for Housing York Inc. and a regular process of funding and reviewing that reserve.

3. BACKGROUND

Housing York Inc. (HYI) carries property insurance coverage on all of its rental properties through the Social Housing Services Corporation (SHSC) who provide a coordinated insurance program for social housing providers in Ontario.

While the group insurance program ensures that appropriate coverage is maintained and competitive premiums are realized, our operating expenses remain vulnerable to unpredictable claims fluctuations.

Working with the Region's risk management staff, a relatively high deductible was established at $10,000 per incident balancing the cost of paying out a deductible versus the higher premium costs of a lower deductible limit.

HYI has a good risk and claims profile, relative to the portfolio size, and continuously provides staff training and adopts new practices to further mitigate our risk. Despite a best practices approach, unpredictable incidences and accidents will occur and each time the $10,000 deductible payment creates a draw on our operating expenses.

An alternative to using operating funds on an as-required basis is to create an Insurance Reserve Fund and a regular process of contributing to the Fund in order to ensure a smoother and more predictable draw on operating expenses. As well, this will provide the Corporation with the necessary protection against a catastrophic loss.

4. ANALYSIS AND OPTIONS

4.1 Coverage

Our Insurance Program provides the following summary of coverage and limits of liability as detailed in Table 1.

Table 1
Liability Coverage and Limits

Coverage Type	Deductible
Property • Direct physical loss or damage, including earthquake and flood	Earthquake = $50,000 Flood = $25,000 Sewer backup = $10,000 All other losses = $10,000
Boiler and Machinery	$10,000
Commercial General Liability	Bodily injury and Property Damage = $10,000 Tenants' Legal = $10,000
Comprehensive Crime	$1,000
Umbrella Liability • Personal injury, property damage, tenants' legal liability	$10,000
Directors' and Officers Liability	Nil
Property Managers' Errors/Omissions	$10,000
Miscellaneous Professional Liability	$10,000

The nature of our business finds that many tenants do not purchase their own insurance due to their limited financial means. Therefore HYI is exposed further when property damage results from a tenant's neglect. Repairs are made through the HYI insurer however the corporation incurs the cost of the deductible.

4.2 Insurance Claims

Detail tracking and analysis of insurance claim costs began in 2005 and Table 2 summarizes the claim records involving costs to the Corporation.

Table 2

Claim Records versus Corporation Costs

Year*	Type of Incident	HYI Cost**
2005	Flood	$10,000
2005	Slip and Fall	$8,000
2005	Slip and Fall	$3,075
2005	Animal Damage	$0
2005	Power Outage	$0
2005	Slip and Fall	$0
2005	Slip and Fall	$0
2005	Slip and Fall	$0
2006	Slip and Fall	$0
2006	Slip and Fall	$0
2006	Slip and Fall	$0
2006	Water Damage	$0
2006	Flood	$10,000
2006	Fire	$10,000
2006	Fire	$10,000
2006	Sewer Back-up	$10,000
2006	Slip and Fall	$2,100
2006	Water Damage	$0

* 2006 is year-to-date at June 30, 2006
** Claims indicating $0 costs reflect claims still pending, or not HYI responsibility

The most common claim occurrences are water damage, fire and personal injuries—slip and fall. History has shown that the random nature of these events results in fluctuating levels of claims and during years of higher claim occurrences, this creates pressure on HYI's Operating Budget.

4.3 Benefits of Establishing an Insurance Reserve

Claims frequency and severity can be volatile and unpredictable. While the severity of a loss is capped per claim by the deductible, the number of claims that may occur is not. Any increase in claim frequency over that which is considered "normal" or "expected" will affect the operating budget in a negative way and place undue hardship and strain on that budget. Having a Reserve Fund to pay the claim deductibles, means you are able to even out these fluctuations of payments and the Operating Budget effect.

5. FINANCIAL IMPLICATIONS

HYI has retained earnings of approximately $3 million as of December 31, 2005. The Board of Directors has committed up to $500,000 as seed funding for the Energy Management Strategy and a further $175,000 for 2006 emergency power upgrades as per the multi-year Emergency Power Strategy.

To establish the insurance reserve we suggest an initial deposit of $200,000 from Retained Earnings.

Beginning in 2007 and annually thereafter, HYI will contribute $50,000 each year to the Reserve from its Operating Budget. Deductibles will be paid from the Reserve, with the expectation that this will allow HYI to more proactively manage its cash flow and minimize the impact of higher loss years. The reserve and claims activity will be reviewed every two years and any appropriate recommendations for changes to the reserve and contribution policies will be made at that time.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications for this report.

7. CONCLUSION

Establishing an insurance reserve puts in place a process for managing insurance losses in a predictable way and protects the Corporation from fluctuations in operating costs. It builds protection against a catastrophic loss that has the potential to have a serious financial impact on the Corporation.

The Senior Management Group has reviewed this report.

Prepared by:

Doug Manson
Manager, Housing York Inc.

Reviewed by:

Sylvia Patterson
Assistant General Manager

Tina Gardiner
Manager, Insurance and Risk

Recommended by:

Joann Simmons
General Manager

Lloyd Russell
Treasurer

Approved for Submission:

Michael R. Garrett
President

August 29, 2006

DM/sd

Version 4-2003-5-30