THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
September 15, 2010
Report of the
General Manager
and
Treasurer

MID-YEAR FINANCIAL STATUS REPORT

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

This report provides the status of mid-year revenue and spending against the 2010 Budget for operating costs, as well as the year-end operating forecast, capital projections and estimated spending against reserves. There are also updates on a number of key initiatives.

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.

The Board will recall that Housing York Inc. (HYI) submitted the 2010 budget within the funding formula guidelines. It was highly probable that costs would exceed the revenue provisions in several areas and the Board approved a contingency of $230,000 or roughly 1% of the operating budget, if needed, to sustain operations.

4. ANALYSIS AND OPTIONS

Mid-year revenue and expenses tracking close to budget

The mid-year financial position is essentially on budget. Both revenue and expenses are within 1% of the budget. Revenue maximization and cost control measures have been in effect since the beginning of the year due to the tight budget and the uncertain economic environment.

Several variables emerge in the second half of the year that affect the year-end forecast. These are discussed in the next section.

Year-end forecast

The 2010 operating budget was set under Provincial funding formula guidelines which allowed a negligible economic increase for maintenance and administration, and a decrease in gas and electric utilities formulas. No provisions were made in the budget for HST impacts, or for salary adjustments which was consistent with regional budget assumptions.

Current indicators suggest HYI would need to draw on the contingency at year-end due to costs exceeding budget. However, in order to minimize the negative impact on Retained Earnings by using the contingency, HYI is adopting a change in accounting policy with respect to the allocation of overheads to the capital program. This change is discussed in Section 4.5 of this report.

With a new accounting methodology in place, Table 1 summarizes the year-end operating forecast showing a modest surplus of $118,000.

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

	2010 Budget	2010 Forecast	Variance $ F/-U	Variance % F/-U
Revenue				
Tenant Rents	13,696	13,752	56	0.4%
Subsidy - York Region	8,201	7,848	(353)	(4.3%)
Subsidy - Federal	1,319	1,319	-	
Total Revenue	**23,216**	**22,919**	**(297)**	**(1.3%)**
Operating Expenditures				
Operating	21,239	20,911	328	1.5%
Public Housing Capital	1,880	1,880	-	
Total Expenditures	**23,119**	**22,791**	**328**	**1.4%**
Operating Surplus before Allocations	**97**	**128**	**31**	**32.0%**
Strategic Projects	50	10	40	80.0%
Operating Surplus (1)	**47**	**118**	**71**	**151.1%**
Capital Reserves (Provincial Reform				
and Regional Housing)				
Contribution to Reserves	1,190	1,177	13	1.1%
Expenditures	1,190	1,177	13	1.1%
Internal Reserve Expenditures				
Energy Management	661	546	115	17.4%
Emergency Power Plan	-	15	(15)	-
Total Internal Reserve Expenditures	**661**	**561**	**100**	**12.0%**

(1) The Board approved an economic contingency of $230,000 or 1% of the operating budget for 2010 due to recessionary constraints in the funding formula. Any amount drawn on the contingency would imply deficit operating results in the current year. HYI is forecasting a surplus in 2010 and therefore not draw on accumulated Retained Earnings from prior years.

HYI is forecasting that tenant rents and minor miscellaneous revenue sources such as parking, laundry and investment income will be $56,000 (.4%) higher than budget. Additionally, HYI is projecting it will require less Regional subsidy than originally budgeted, resulting in the $353,000 variance in Regional subsidy. Unused subsidy is returned to the Service Manager in the year-end reconciliation process.

HYI is tracking $328,000 (1.4%) under budget in operating expenses. Approximately $216,000 or two thirds of this amount represents salary and benefit costs that will be transferred out of operating and allocated to various capital programs; this is discussed further in Section 4.6 of this report. The balance of the savings, approximately $131,000, is from under spending in utilities.

These projections mean that HYI would realize $118,000 operating surplus in 2010.

Spending against all of HYI's reserves is forecasted to be on budget as discussed in Section 4.3 of this report.

To the extent possible, the operating forecast considers HST impacts. Further information concerning HST is noted in Section 4.4.

Major repairs and renovations continue to be major focus this year

Continuing from 2009, the capital program has been significantly increased by taking advantage of as much economic stimulus funding as possible. The stimulus program is called the Social Housing Renovation and Retrofit Program (SHRRP) and was a federal and provincial budget announcement in 2009 to provide funding for renovation and retrofit of existing social housing stock. From the Region's allocation, HYI was successful in securing $4,000,000 over the two program years.

Table 2 summarizes the approved capital budget for 2010 and the year-end forecast compared to budget. It further summarizes the additional Board approved multi-year programs that HYI has undertaken in addition to the typical annual capital upgrades.

Table 2
2010 Major Repairs and Replacement Forecast Compared to Budget ($000's)

Annual Programs	Funding Source	2010 Budget	2010 Forecast	Variance $ F/(U)
Public Housing (872 units)	Operating Budget (subsidy)	$1,880	$1,880	-
Provincial Reform (937 units)	Capital Reserve	1,135	1,135	-
Region Housing (118 units)	Capital Reserve	40	40	-
Blue Door Shelter	Capital Reserve	15	2	13
Total Approved Capital Budget and Forecast		**$3,070**	**$3,057**	**$13**
Board Approved Programs				
Social Housing Renovation And Retrofit Program	Year 2 – Economic Stimulus Grants	1,690	1,605	85
Provincial Social Housing Repair	Additional Subsidy	500	467	33
Energy Management Strategy	Utility Savings and Borrowing	661	545	116
Emergency Power	Internal Reserve	-	15	(15)
Total Major Repairs and Renovations – all programs		**$5,921**	**$5,689**	**$232**

The budget for HYI's annual major repairs will be fully spent at year end.

The SHRRP budget allocations are subject to change by the Service Manager as grants become available or expended over the life of the program. HYI's SHRRP budget for this year has been reduced from $1,900,000 to $1,690,386. This was done to accommodate several jobs that were advanced last year under the Service Manager's direction. In total, an estimated $4,039,731 of additional capital investments from both years of the SHRRP program will be spent in HYI buildings.

Recently, HYI received conditional approval for an additional $700,000 from the Ministry of Municipal Affairs and Housing's Renewable Energy Program, a subset of the SHRRP program.

The Energy Management Strategy, now in its third year, is expected to be slightly below budget as some jobs were transferred to the SHRRP program to take advantage of grant funding. HYI is forecasting it will take a modest draw of about $100,000 on its $3,500,000 approved loan with the Region. This would be repaid in future years from energy savings.

The 2010 business plan did not anticipate any spending on the Emergency Power Program this year. However, a consultant has been engaged to assist staff in evaluating options for the completion of the program. Therefore, expenditures of $15,000 will be used from the reserve set aside for this program. This will leave approximately $515,000 in this reserve at year-end.

HST impacts create an unfavourable budget variance for HYI; additional subsidy will be needed to offset the difference

HYI is negatively affected by the implementation of HST. All service contracts that previously carried a 5% GST tax rate, such as janitorial, landscaping or snow removal, are now subject to 13% HST. The same outcome applies for gas and hydro utilities.

The preliminary estimated half-year impact for HST is estimated at:

Utilities	$ 8,455
Materials and services	$14,524
Total half year impact	$22,979

The operating forecast includes the incremental cost of HST based on mid-year assumptions. It is not yet known how the funding model will respond to the HST shifts and therefore this may be an additional cost to HYI.

Two minor accounting policy changes take place this year to enhance financial flexibility

1. **Technical Services costs will be allocated to Major Repairs and Renovations Program as a capital overhead**

The Technical Services staff group's primary role for HYI is to plan, design and project manage major repairs and renovations within the capital program.

Prior to departmental reorganization, the salary and benefit costs attributable to this unit, along with their related overhead costs, were treated as HYI operating expenses. The unit was essentially dedicated to HYI and shared facilities with the rest of Housing Operations at the Gorham Office.

The new mandate of this team is considerably larger. In addition to providing technical services to HYI, they also support other housing providers in York Region as well as the Newmarket and Maple Health Centres. Technical Services has been relocated to its own office within the Newmarket Health Centre.

In this context, Technical Services operates more like a consultant on HYI's major repair and renovation jobs. Therefore, HYI will begin to allocate Technical Services costs as an overhead on capital jobs, rather than an operating expense. In 2010, an estimated $216,000 will be transferred out of operating and into various capital programs thereby reducing the need to draw on the contingency operating budget. The resulting increase into the capital program will be managed within the approved budget.

The new accounting methodology is consistent with how other housing providers and Regional departments record their costs associated with using third party resources as technical capital consultants.

2. Establish Retained Earnings for Regional Housing Program
In preparation for the three new buildings that will be added to the Regional Housing Program in 2011, the corporation will establish a Retained Earnings account for these properties, similar to the one used for Provincial Reform properties. Retained Earnings is a restricted holding account where current and prior year-end surplus operating funds are held for future use, either for specified uses at the discretion of the Board or for operational contingency.

The three existing buildings that will be affected by the accounting policy change immediately are:

- Armitage Gardens
- Blue Willow Terrace
- Tom Taylor Place

Typically, any surplus operating funds from these locations was contributed to the capital reserve. Starting this year, the new model will ensure that surplus funds are allocated to both the capital reserve and Retained Earnings to ensure optimal financial flexibility.

This accounting model becomes particularly important with the upcoming buildings that are expected to generate a net income to fund affordable rents for lower income households. A Retained Earnings account is essential to handling fluctuating rental market conditions in the new self-funded environment.

IT system project underway – Phase I forecast to be implemented on time

In April the Board approved a software system upgrade subject to receiving $500,000 additional subsidy from the Service System Manager. The project is underway and approximately $100,000 has been spent. Currently, Phase 1 of the project is scheduled to be delivered before year-end as planned. Phase 2 will conclude in May 2011. No budget variances in the overall project budget are predicted as this time.

5. FINANCIAL IMPLICATIONS

With a change in accounting processes, HYI is forecasting a modest surplus of $118,000. It is recognized that the operating budget is very tight and every attempt possible is being made to avoid using the economic contingency set aside in the budget.

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 incremental capital investment in the portfolio as a result of economic grant funding. Also, the recent conditional Ministry approval for several “green” projects enhances HYI’s sustainability efforts for the environment.

7. CONCLUSION

HYI is forecasting an operating surplus of approximately $118,000 in 2010. The operating budget is very tight, as expected. Minor accounting policy changes are expected to increase financial flexibility to reduce the requirement to draw on contingency funds. Capital forecasts are within budget envelopes.

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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