

The Regional Municipality of York

Housing York Inc.
November 2, 2017

Report of the
General Manager
and
Chief Financial Officer

Implementing a Long-Term Fiscal Plan
for Housing York Inc.

1. Recommendations

It is recommended that:

1. The Board adopt the Long-Term Fiscal Plan outlined in Attachment 1.
2. The following reserve funds be established:
 - a) A Working Capital Reserve to fund short-term cash flow requirements
 - b) A Strategic Initiatives Reserve to fund strategic initiatives, risk mitigation and growth
3. The following reserve funds be renamed and/or repurposed:
 - a) The Capital Repair and Replacement Reserve be repurposed to fund planned capital repairs for the entire Housing York Inc. portfolio
 - b) The Operations Reserve be repurposed to fund non-recurring unplanned expenditures and revenue shortfalls
 - c) The Shelter Furniture Replacement Reserve be renamed the Emergency Housing Reserve and be repurposed to fund emergency housing capital repairs and operating expenditures
4. The Emergency Power Plan Project Reserve be discontinued.
5. The Board approve a new Operating Surplus Policy set out in Attachment 2.

Implementing a Long-Term Fiscal Plan for Housing York Inc.

6. Retained earnings be discontinued and the remaining balance be transferred to reserves based on the priorities outlined in the Operating Surplus Policy set out in Attachment 2.
 7. The Board approve the updated Investment Policy set out in Attachment 3.
2. Purpose

This report presents an overview of Housing York Inc.'s (Housing York) Long-Term Fiscal Plan (Attachment 1). It recommends the creation, closing, renaming and/or repurposing of certain reserves. It also requests Board approval of a new Operating Surplus Policy (Attachment 2) and an updated Investment Policy (Attachment 3).

3. Background

Implementing a long-term fiscal plan is a key deliverable under Housing York's 2017 to 2020 Plan

In [November 2016](#) the Board of Directors approved Housing York's 2017 to 2020 Plan *Achieving New Heights Through Innovation and Sustainability*. The fiscal plan is a key deliverable to build Housing York's long-term financial sustainability. The fiscal plan also supports the key direction of effectively managing Housing York's assets, ensuring they are well-maintained and their lifespans maximized.

Housing York's portfolio was constructed under three programs, each with different capital reserve fund requirements

Housing York operates 35 buildings constructed under three federal and provincial programs. Each program has different funding rules and requirements for managing capital reserve funds (Table 1).

**Table 1
Capital Reserve Fund Requirements by Program**

Program	# of buildings	# of units	Capital Reserve Fund Requirements
Public Housing	16	840	<ul style="list-style-type: none"> • No reserve • Capital repairs funded by Region through operating budget • Unused capital repair funding is returned to the Region at year-end
Provincial Reform	11	1,024	<ul style="list-style-type: none"> • Provincial formula determines mandatory annual reserve contributions • 50% of annual operating surplus contributed to capital reserve
Regional Housing	8	730	<ul style="list-style-type: none"> • Set dollar amount contributed annually per unit • 75% of annual operating surplus contributed to capital reserve

The Public Housing program has no reserve. Instead, capital expenditures are covered through the operating budget, which is funded by annual subsidies from the Region. The amount of Regional subsidy required is determined each year and requested through the Region’s budget process. As the capital needs vary from year-to-year, fluctuations can put pressure on the Regional tax levy.

The Provincial Reform program requires mandatory reserve contributions determined by a Provincial formula which does not reflect the full cost of maintaining the buildings in a state of good repair. Housing York also participates in the Region’s surplus share program which enables participating housing providers to contribute 50 per cent of the annual surplus attributable to this portfolio to the capital reserve. Housing York’s Provincial Reform reserves are now depleted and the annual contributions are significantly less than the annual cost of repairs. As a result, Housing York has requested a draw of \$3.4 million from the Region’s Non-Profit Housing Capital Repair Reserve in 2017.

Newer buildings under the Regional Housing program do not receive Regional subsidy for operating expenses or capital repairs. The budgets for these properties include a capital reserve contribution per unit to ensure Housing York builds the capital reserves needed to maintain the buildings over the long term. A portion of the annual operating surplus is allocated to the capital reserve for this purpose. Since the buildings under this program are relatively new, capital repair needs are relatively small and this has allowed the capital reserve to grow.

4. Analysis and Implications

The Fiscal Plan will strengthen Housing York's long-term financial sustainability, ensuring the corporation can grow its portfolio while maintaining its existing assets as they age

The recommended fiscal plan has been developed to ensure Housing York remains fiscally responsible, safeguards its assets and is accountable for effectively managing its resources.

The fiscal plan includes three key elements:

- A Reserve Strategy that sets goals and objectives for Housing York's reserves and stabilizes the annual Regional tax levy impact
- An Operating Surplus Policy that establishes a framework for the allocation of operating surpluses
- An updated Investment Policy to ensure prudent management of Housing York's working capital and reserves

Reserve Strategy

Consolidating capital reserve funds for housing constructed under all three programs will ensure predictable, streamlined subsidy requests to York Region

Annual capital needs vary by the program under which the housing was constructed (Public Housing, Provincial Reform, and Regional Housing) and by building age. Buildings developed around the same time typically need major capital work, such as roof replacements and elevator modernization, within similar timeframes. This creates spikes in demand on Housing York's capital reserves and capital funding needed from the Region.

The Fiscal Plan includes establishing a consolidated capital reserve to be shared by all three programs.

A capital reserve fund analysis was developed to determine the reserve contribution needed for each program to fund planned capital expenditures over the next 40 years

Under a consolidated reserve fund, each program will contribute to Housing York's Capital Repair and Replacement Reserve annually. Reserve contributions

for newer buildings will be used to fund more immediate capital expenses needed for older buildings, smoothing pressures on the reserve over time.

Housing York's Capital Repair and Replacement Reserve will be funded from a variety of funding sources including an annually budgeted allocation from Housing York's operating budget, Regional subsidies, a portion of annual operating surpluses and an annual draw from the Regionally Owned Housing Reserve.

The capital repair funding currently provided through the operating budget for Public Housing will also be directed to the reserve. Similar to other housing programs, any unspent capital repair funds will remain in the capital reserve and not be returned to the Region, better enabling projects that span more than one fiscal year.

Capital expenditures could be higher than contributions in a specific year; however, each program will contribute enough funding to cover all of its capital needs over the long-term.

As part of the fiscal plan, Housing York will be requesting a total of \$3.6 million annually from the Regionally Owned Housing Reserve to ensure assets are well maintained

Council established the Regionally Owned Housing Reserve in 2008 to fund major rehabilitation and replacement of Regionally owned housing and Housing York.

Historically, Housing York has not required funds from the Region's reserves because it had sufficient funds in its own capital reserves. As the buildings have aged, the annual cost of repairs has become significantly greater than the annual mandatory reserve contributions, depleting the Provincial Reform reserves. As a result, the Region has approved a draw of \$3.4 million from the Region's Non-Profit Housing Capital Repair Reserve for Housing York in 2017. As part of the Region's forthcoming 2018 Regional Fiscal Strategy, it was assessed that the draws would be better reflected through the Regionally Owned Housing Reserve. To maintain the assets in a good state of repair, an annual reserve draw of \$2.9 million will be requested from the Regionally Owned Housing Reserve beginning in 2018.

In addition to the annual draw of \$2.9 million, a further annual reserve draw of \$700,000 from the Regionally Owned Housing Reserve will be requested for buildings in the Public Housing portfolio. Although Housing York receives an annual subsidy from the Region to support capital needs for these older buildings, additional funding is required from the Regionally Owned Housing Reserve to maintain the asset in a good state of repair.

Housing York’s reserve fund strategy will include reserves for strategic initiatives, unplanned expenditures and revenue shortfalls

Housing York currently does not have the reserves it needs to effectively and efficiently respond to capital and operating needs:

- There is no reserve for unplanned capital expenditures, such as in-year retrofits that may be required to address changes in provincial requirements. As a result, planned capital projects must be delayed in order to fund unplanned projects.
- There is no reserve for unplanned operating expenditures or revenue shortfalls.
- There is no reserve to fund one time projects that improve operational efficiency, enhance tenant services or mitigate the corporation’s risk.
- Funds for strategic initiatives must be requested from retained earnings through the budget process.

Table 2 shows Housing York’s proposed reserves, including their purpose.

**Table 2
Summary of Housing York Proposed Reserves**

Reserve Name	Purpose
Capital Repair and Replacement	Funds for capital repairs for all Housing York properties
Working Capital	Funds for short-term cash flow requirements
Strategic Initiatives	Funds for strategic priorities
Operations	Funds for unplanned expenditures and revenue shortfalls
Emergency Housing	Funds for Emergency Housing to support capital repairs and operating expenditures

Typically, funds for capital and operating expenditures are not combined into one reserve. For simplicity and given the relatively small size of the reserve funds, capital and operating expenditures are recommended to be combined in the above noted reserves. The only exception is the Capital Repair and Replacement Reserve which only includes expenditures related to capital projects.

A detailed overview of Housing York's reserves, including funding sources is provided in Appendix A of Attachment 1.

Operating Surplus Policy

The new Operating Surplus Policy will establish a priority framework for allocation of any operating surpluses

Operating surpluses are transferred to Housing York's retained earnings after additional contributions to capital reserves. Retained earnings are used for strategic initiatives, but there are no targets or limits for allocating these funds. Under the recommended Operating Surplus Policy (Attachment 2), operating surpluses will not be transferred to retained earnings but instead be allocated to reserves in the following order:

- 50 per cent of funds will first be placed in the Capital Repair and Replacement Reserve
- Funds will then be placed in the Working Capital Reserve until it reaches the limit of \$3.5 million which represents approximately one month of operational expenditure activity
- Funds will then be placed in the Insurance Reserve until it reaches the limit of \$180,000
- Funds will then be placed in the Operations Reserve until it reaches the limit of \$500,000
- Any remaining funds will be transferred to the Strategic Initiatives Reserve until it reaches the limit of \$3.5 million; if the reserves reach the limit, funds can be repurposed as part of the annual budget process subject to Board approval

Attachment 2 sets out the new Operating Surplus Policy recommended for Board approval.

Housing York's retained earnings have no targets or limits

Housing York's retained earnings are the result of cumulative operating surpluses. They represent past earnings and are currently used to fund strategic initiatives, such as the upgrade to Housing York's property management system and installation of emergency generators. Requests to fund specific projects using retained earnings are considered through the budget process and require Board approval.

Retained earnings have been growing and there are currently no targets or limits. As of December 2016, retained earnings were \$3.7 million. Based on current projections, retained earnings will grow to \$4.7 million by December 31, 2017.

Retained earnings will be allocated to the reserves based on the Operating Surplus Policy

This report recommends that retained earnings be discontinued and the remaining balance be transferred to reserves based on the priorities outlined in the Operating Surplus Policy set out in attachment 2. Where in the past strategic priorities were funded from retained earnings, in future they will be funded from a dedicated reserve.

Table 3 shows how the projected \$4.7 million in retained earnings will be allocated to the reserves based on the recommended Operating Surplus Policy (Attachment 2). Retained earnings were accumulated net of additional contributions to the Capital Repair and Replacement Reserve.

Table 3
Allocation of Housing York’s Retained Earnings

Reserve Name	Projected Balance as of December 31, 2017	Limit	Transfer from Retained Earnings
Working Capital	\$0	\$3,500,000	\$3,500,000
Insurance	\$180,000	\$180,000	\$0
Operations	\$134,000	\$500,000	\$366,000
Strategic Initiatives	\$0	\$3,500,000	\$834,000
Total			\$4,700,000

Investment Policy

Housing York’s current Investment Policy applies only to properties under the Provincial Reform program

Housing York’s current Investment Policy was established to comply with the *Housing Services Act*, 2011 requirements to invest in the Housing Services Corporation’s mandatory investment pool, and only applies to buildings constructed under the Provincial Reform program.

Updating Housing York’s investment policy will ensure the portfolio is maximizing returns while still providing for cash flow needs

An update to the Investment Policy is required to ensure prudent management of the corporation’s surplus operating funds and reserves, particularly as Housing York’s stock continues to grow. The capital reserve attributable to the Provincial Reform properties is excluded from the policy as it is regulated by the *Housing Services Act, 2011*. Since the Provincial Reform reserves are depleted there are currently no funds in this portfolio to invest.

The recommended updated policy (attachment 3) was prepared with assistance from Regional staff. It establishes the objectives, principles and guidelines for the prudent investment of surplus operating funds and reserves. The policy clarifies the permitted instruments and assets that the portfolio can be invested in. This includes fixed income, short-term financial instruments, and pooled funds. It sets out the minimum credit rating and the maximum allowable exposure for each of the above permitted investments.

To ensure cash flow needs are met, asset mix guidelines have been established to outline the target amount of investments for each term as well as the minimum and maximum. For example, 40 to 50 per cent of the portfolio should be invested in instruments with terms of less than 183 days to ensure cash is available to fund short-term needs. Table 4 sets out the target as well as the minimum and maximum allowable exposure for each term.

Table 4
Investment Policy - Target Asset Mix

Term	Minimum	Maximum	Target Asset Mix
Less than 183 days	20%	100%	40% - 50%
184 to 365 days	10%	80%	15% - 25%
1 year to 3 years	0%	70%	15% - 25%
3 years to 5 years	0%	50%	10% - 20%
Over 5 years	0%	30%	0% - 10%

Attachment 3 includes the updated Investment Policy for Board approval.

5. Financial Considerations

Implementation of the Fiscal Plan does not pose additional costs for Housing York

Reallocating reserve funds, introducing an Operating Surplus Policy, and updating the Investment Policy will strengthen Housing York's long-term financial sustainability and allow the corporation to grow.

There are sufficient funds in the Regionally Owned Housing Reserve to cover Housing York's additional capital repair funding needs

Historically, Housing York has not required funds from Regional reserves because it had sufficient funds in its own capital reserves for repairs. It is projected that Housing York will require \$3.6 million annually from the Regionally Owned Housing Reserve, beginning in 2018.

6. Local Municipal Impact

Housing York operates buildings in all nine local municipalities. Implementing the Fiscal Plan will ensure that Housing York continues to provide homes for thousands of residents across the Region.

7. Conclusion

The Fiscal Plan has been developed to strengthen Housing York's long-term financial sustainability, an important goal as the corporation seeks to pursue new ways of delivering its services and growing its portfolio, while maintaining its assets as they age. The plan will be reviewed and updated periodically by staff to further manage Housing York's finances prudently and proactively.

For more information on this report, please contact Michelle Willson, Chief Financial Officer, at 1-877-464-9675 ext. 76064.

Implementing a Long-Term Fiscal Plan for Housing York Inc.

The Senior Management Group has reviewed this report.

Recommended by:

Rick Farrell
General Manager

Michelle Willson
Chief Financial Officer

Approved for Submission:

Katherine Chislett
President

October 18, 2017

Attachments (3)

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Accessible formats or communication supports are available upon request

Housing York's Long-Term Fiscal Plan

Introduction

As a key deliverable in Housing York's 2017 to 2020 Plan, the long-term fiscal plan has been developed to ensure Housing York remains fiscally responsible, safeguards its assets and is accountable for effectively managing its resources.

The fiscal plan includes three key elements:

1. A Reserve Strategy that sets goals and objectives for Housing York's reserves and stabilizes the annual Regional tax levy impact
2. An Operating Surplus Policy that establishes a framework for the allocation of operating surpluses
3. An updated Investment Policy to ensure prudent management of Housing York's working capital and reserves

1. Reserve Strategy

The fiscal plan includes the following changes to reserves to ensure Housing York can effectively and efficiently respond to capital and operating needs:

- a. The Capital Repair and Replacement Reserve be repurposed to fund planned capital repairs for the entire Housing York Inc. portfolio;
- b. A Working Capital Reserve be established to fund short-term cash flow requirements;
- c. A Strategic Initiatives Reserve be established to fund strategic initiatives, risk mitigation and growth;
- d. The Operations Reserve be repurposed to fund non-recurring unplanned expenditures and revenue shortfalls;
- e. The Shelter Furniture Replacement Reserve be renamed the Emergency Housing Reserve and be repurposed to fund emergency housing capital repairs and operating expenditures;
- f. The Emergency Power Plan Project Reserve be discontinued.

Capital Repair and Replacement Reserve

The Capital Repair and Replacement Reserve will be consolidated to eliminate spikes in demand on capital reserves and capital funding needed from the Region. Under the

consolidated reserve fund, each program (Public Housing, Provincial Reform, and Regional Housing) will contribute to Housing York's Capital Repair and Replacement Reserve annually. Reserve contributions for newer buildings will be used to fund more immediate capital expenses needed for older buildings, smoothing pressures on the reserve over time. Capital expenditures could be higher than contributions in a specific year; however, each program will contribute enough funding to cover all of its capital needs over the long-term.

Housing York's Capital Repair and Replacement Reserve will be funded from a variety of funding sources including an annually budgeted allocation from Housing York's operating budget, Regional subsidies, 50 per cent of annual operating surpluses and an annual draw of \$3.6 million from the Regionally Owned Housing Reserve.

The capital repair funding currently provided through the operating budget for Public Housing will also be directed to the reserve. Similar to other housing programs, any unspent capital repair funds will remain in the capital reserve and not be returned to the Region, better enabling projects that span more than one fiscal year.

Withdrawals from the Capital Repair and Replacement Reserve require Board approval as part of the annual budget approval process.

Working Capital Reserve

A Working Capital Reserve will be established to ensure funds are available to facilitate the timely payment of invoices. The Working Capital Reserve will be funded through annual allocations from operating surpluses to a limit of \$3.5 million. This is equivalent to approximately one month of expenditure activity. The Chief Financial Officer may temporarily borrow up to 50% of the reserve limit to fund Housing York's operational and capital needs pending the collection of tenant rent and government subsidies or the sale of investments.

Strategic Initiatives Reserve

A Strategic Initiatives Reserve will be established to fund strategic priorities such as the upgrade to Housing York's property management system. The Strategic Initiatives Reserve will be funded through annual allocations from the operating surplus to a limit of \$3.5 million. If the reserves reach the limit, funds can be repurposed as part of the annual budget process. Any proposed use of the reserve requires Board approval.

Operations Reserve

The Operations Reserve was originally established to mitigate risks related to reductions in tenant incomes for units where Housing York funds the rent subsidies without Regional assistance. The Operations Reserve will be expanded to also serve as an emergency reserve fund, to ensure funding is available for unplanned expenditures and revenue shortfalls. The Operations Reserve will be funded through annual

allocations from the operating surplus to a limit of \$500,000 in line with the President's signing authority.

Authority to spend funds from the Operations Reserve is set out in Housing York's Purchasing Bylaw, which was approved by the Board in 2014. The Purchasing Bylaw authorizes the President to approve up to \$500,000 in spending without Board approval in the event of an emergency. The Purchasing Bylaw also allows the President to authorize purchases in the case of an emergency without issuing a call for bids, and requires the President to submit a report to the Board describing expenditures made under this authority upon the conclusion of the emergency.

Insurance Reserve

The Insurance Reserve was established in 2006 for the purpose of funding the cost of claims and deductibles which would otherwise impact the operating budget. The Board approved an initial transfer of \$200,000 from retained earnings to provide start-up funding, and a \$50,000 annual contribution from operating funds to sustain the reserve in future years. In 2010, the Board approved an adjustment to the insurance reserve to reduce the target balance from \$200,000 to \$180,000 and reduce annual contributions to \$25,000. No adjustments will be made to the Insurance Reserve as it still has sufficient funds to cover the cost of claims and deductibles.

Emergency Power Plan Project Reserve

The Emergency Power Plan Project Reserve was established to fund emergency power improvements at 19 properties to prolong functionality of Housing York's buildings during emergency situations. As the approved Emergency Power Plan is now complete, the Emergency Power Plan Project Reserve will be discontinued.

Emergency Housing Reserve

An emergency housing program is currently being developed to clarify the roles and responsibilities in managing emergency housing facilities and ensure the consistent delivery of service across each of the five properties. As part of the program, a separate Emergency Housing Reserve is being proposed to fund capital repairs and operating expenditures for all emergency housing facilities. Once approved, all reserve funds related to emergency housing facilities will be transferred from the various reserves to the Emergency Housing Reserve. The reserve will continue to be funded through York Region's Social Services – Homelessness Programs budget.

Reserves may be invested for a term that will not exceed its expected date of need. The related investment income will be credited to the specific reserve.

Appendix A summarizes Housing York's reserves, including their purpose, funding source and any balance as of December 31, 2016.

2. Operating Surplus Policy

As outlined in the Operating Surplus Policy, operating surpluses will be allocated to reserves in the following order:

- 50 per cent of funds will first be placed in the Capital Repair and Replacement Reserve
- Funds will then be placed in the Working Capital Reserve until it reaches the limit of \$3.5 million
- Funds will then be placed in the Insurance Reserve until it reaches the limit of \$180,000
- Funds will then be placed in the Operations Reserve until it reaches the limit of \$500,000
- Any remaining funds will be transferred to the Strategic Initiatives Reserve until it reaches the limit of \$3.5 million. If the reserves reach the limit, funds can be repurposed as part of the annual budget process subject to Board approval.

Retained earnings will be discontinued and the remaining balance will be transferred to reserves. Table 1 shows how the projected \$4.7 million will be allocated to the reserves based on the Operating Surplus Policy. Retained earnings were accumulated net of additional contributions to the Capital Repair and Replacement Reserve. As such retained earnings are not allocated to the Capital Repair and Replacement Reserve in the table below.

Table 1
Allocation of Housing York's Retained Earnings

Reserve Name	Projected Balance as of December 31, 2017	Limit	Transfer from Retained Earnings
Working Capital	\$0	\$3,500,000	\$3,500,000
Insurance	\$180,000	\$180,000	\$0
Operations	\$134,000	\$500,000	\$366,000
Strategic Initiatives	\$0	\$3,500,000	\$834,000
Total			\$4,700,000

3. Investment Policy

The updated Investment Policy establishes the objectives, principles and guidelines for the prudent investment of working capital and reserves. The policy clarifies the permitted instruments and assets that the portfolio can be invested in. This includes fixed income, short-term financial instruments, and pooled funds. It sets out the minimum credit rating and the maximum allowable exposure for each of the above permitted investments. The capital reserve attributable to the Provincial Reform properties is excluded from the policy as it is regulated by the *Housing Services Act, 2011*.

To ensure cash flow needs are met, asset mix guidelines have been established to outline the target amount of investments for each term as well as the minimum and maximum. For example, 40 to 50 per cent of the portfolio should be invested in instruments with terms of less than 183 days to ensure cash is available to fund short-term needs.

The updated Investment Policy was prepared with assistance from Regional staff. It is anticipated the Region will manage the portfolio on Housing York's behalf but the policy provides flexibility if Housing York were to decide to appoint a different Investment Manager.

Conclusion

The Fiscal Plan has been developed to strengthen Housing York's long-term financial sustainability, an important goal as the corporation seeks to pursue new ways of delivering its services and growing its portfolio, while maintaining its assets as they age. The plan will be reviewed and updated periodically by staff to further manage Housing York's finances prudently and proactively.

Appendix A
Summary of Housing York Inc. Reserves

Name	Status	Purpose	Funding Source	Balance as of Dec. 31, 2016 (\$000)
Capital Repair and Replacement	Repurposed	Funds for capital repairs for all Housing York properties	Funded by annual budget allocations, a contribution from the Regionally Owned Housing Reserve and 50% of any operating surpluses	\$5,683
Working Capital	New	Funds for short-term cash flow requirements	Funded by an operating surplus allocation to a limit of \$3.5 million	\$0
Strategic Initiatives	New	Funds for strategic priorities	Funded by an operating surplus allocation to a limit of \$3.5 million	\$0
Operations	Repurposed	Funds for unplanned expenditures and revenue shortfalls	Funded by an operating surplus allocation to a limit of \$500,000	\$110
Insurance	Unchanged	Funds to cover the cost of insurance claims and deductibles	Funded by an annual budget allocation of \$25,000 and an operating surplus allocation to a limit of \$180,000	\$180
Emergency Power Plant Project	Discontinued (project completed in 2017)	Funds to support emergency power upgrades for 19 properties	Funded by transfers from retained earnings	\$578
Emergency Housing	Repurposed and Renamed (former Shelter Furniture Replacement Reserve)	Funds for Emergency Housing to support capital repairs and operating expenditures	Funded through the Social Services, Homelessness Programs budgets	\$241

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Housing York Inc.

Operating Surplus Policy

Policy No.: 2017-02

Original Approval Date: November 2, 2017

Policy Last Updated: November 2, 2017

Policy Statement:

The Operating Surplus Policy will enable Housing York to allocate annual operating surpluses in a fiscally responsible manner.

Application:

All staff responsible for the control, administration and management of operating surpluses for Housing York.

Purpose:

This policy establishes a priority framework for the allocation of any operating surpluses.

Description:

Annual operating surpluses, except where otherwise directed by the Board will be allocated to reserves in the following order:

- 50 per cent of funds will first be placed in the Capital Repair and Replacement Reserve;
- Funds will then be placed in the Working Capital Reserve until it reaches the limit of \$3.5 million which represents approximately one month of operational expenditure activity;
- Funds will then be placed in the Insurance Reserve until it reaches the limit of \$180,000;

- Funds will then be placed in the Operations Reserve until it reaches the limit of \$500,000;
- Any remaining funds will be transferred to the Strategic Initiatives Reserve until it reaches the limit of \$3.5 million. If the reserves reach the limit, funds can be repurposed as part of the annual budget process.

Reporting Requirements:

The Chief Financial Officer will report to the Board on the allocation of operating surpluses by September 30 of each year as part of the mid-year financial status report.



**Housing York Inc.
Investment Policy**

Policy No.: 2017-01

Original Approval Date: November 9, 2005

Policy Last Updated: November 2, 2017

Policy Statement:

A policy governing the investment of working capital and reserves.

Application:

This policy applies to all staff and the Investment Manager responsible for the control, administration and reporting of investments for Housing York.

The policy pertains to all working capital and reserves, except for the capital reserve attributable to the Provincial Reform properties which is regulated by the *Housing Services Act, 2011, c. 6, Sched. 1, s. 124*.

Purpose:

This policy established the objectives, principles and guidelines for the prudent investment of working capital and reserves.

Description:

1. Objectives of Housing York's investment program

The primary objectives of the investment program, in a priority order, shall be:

- a) Preservation of capital
- b) Maintaining liquidity
- c) Earning a competitive rate of return

a) Preservation of Capital

Safety of capital is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to minimize the risk to capital in the overall portfolio. Staff will endeavor to seek preservation of capital with reasonable investment risk in the overall portfolio.

b) Maintaining Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements. This shall be done where possible by structuring the portfolio such that the terms of securities held in the portfolio reflect anticipated cash demands. Since not all possible cash demands can be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

c) Competitive Rate of Return

Without compromising other objectives, Housing York shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program. Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions.

Diversification, and ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment portfolio returns by means of prudent and timely adjustments to asset mix.

2. Standard of Care

a) Prudence

Staff and/or the Investment Manager shall act with impartiality, loyalty and prudence; shall maintain overall portfolio risk at an appropriate level in consideration of the corporation's needs; and ensure the portfolio is reasonably diversified.

Staff and/or the Investment Manager exercising due diligence and acting in accordance with written procedures and this Policy shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of the Policy.

b) Ethics and Conflicts of Interest

Staff and investment officials of the Investment Manager involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. These personnel shall disclose any material interests in

financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. They shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Housing York.

c) Delegation of Authority

The President of Housing York will have overall responsibility for prudent investment of the portfolio. All investment decisions will be made under the authority of the President or delegate. The President and the Chief Financial Officer are responsible for the implementation of the investment program and the establishment of investment procedures consistent with the Policy. No person may engage in an investment transaction except as provided under the terms of this Policy.

3. Investment Manager Eligibility Criteria

Housing York may use the service of an Investment Manager approved by the President. To be eligible for managing the portfolio, the Investment Manager must meet the following criteria:

- a) The Investment Manager has a team of professionals with applicable investment credentials
- b) The Investment Manager provides a report setting out its performance for the past 5 years, demonstrating investment performance that meets that of the benchmarks of the managed portfolios

A service agreement will be developed to set out terms of investment service between Housing York and the Investment Manager, and approved by the Board.

4. Investment Philosophy

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on preservation of capital and then liquidity as the most important objectives, with yield as the least important one of the three objectives.

A passive management approach shall be considered where there is a belief that indexing is an efficient and cost effective means to manage investments. An active management approach may be considered where a belief is held that this approach will add value above the indicative benchmark on an after fees basis and/or create less risk than the benchmark indices. The cost to invest and administer the portfolio shall be kept at a reasonable level. Given this strategy, comparable indices will be used to determine whether market yields are being achieved.

Investments should be sufficiently diversified to minimize the risk of loss resulting from over concentration of assets in a specified maturity, issuer, or class of securities.

5. Permitted Investments

Subject to this Policy, the portfolio may be invested in any of the following instruments or assets. The assets may be obligations or securities of Canadian entities.

- a) Fixed income. Publicly traded debt securities of Canadian issuers, including issues denominated in non-Canadian currencies.
- b) Cash and short-term investments. To maintain liquidity for operating needs, excess cash not allocated specifically in investment mandate may be invested in the demand deposits of the custodian, Treasury bills issued by Federal and Provincial governments and their agencies, bankers' acceptances, commercial paper and other short-term financial instruments.
- c) Investment in Pooled Funds. Investment in pooled funds is permissible. It is expected that investments in pooled funds will be consistent with this Policy. It is recognized, however, that there may be instances where there is a conflict between this Policy and the pooled fund policy. In this case, the pooled fund policy will dominate. Treasury Office is required to disclose the pooled fund policy and to provide notification in writing of any material changes to the pooled fund policy.

Appendix 1 sets out the minimum credit rating and the maximum allowable exposure for each specific security classification / issuer.

At the time of purchase, all permitted investments shall conform in all aspects with this Policy.

In the event of a downgrade in the credit rating of a security held in the portfolio so that the security falls below the standard as set out in *Appendix 1*, the Investment Manager shall sell the investment within 90 to 120 days after the day of the downgrade.

6. Target Asset Mix

One of the investment objectives for the portfolio is earning a competitive rate of return. The investment return of a portfolio is largely determined by the portfolio asset mix. In light of the investment objectives and the characteristics of the portfolio assets, the following asset mix guidelines have been established by the Policy.

Term	Minimum	Maximum	Target Asset Mix
Less than 183 days	20%	100%	40% - 50%
184 to 365 days	10%	80%	15% - 25%
1 year to 3 years	0%	70%	15% - 25%
3 years to 5 years	0%	50%	10% - 20%
Over 5 years	0%	30%	0% - 10%

7. Roles and Responsibilities

The President has the overall responsibility for portfolio investment, and has delegated investment responsibilities to the Chief Financial Officer. All investment decisions will be made under the authority of Housing York's President or Chief Financial Officer or delegate.

a) Board of Directors

- i) Approves the Investment Policy and Procedures
- ii) Receives Annual Investment Reports from the President and Chief Financial Officer
- iii) Approves service agreement between Housing York and Investment Manager

b) President and Chief Financial Officer

- i) Develop the Investment Policy and Procedures including the setting of minimum and maximum limits and a target asset mix
- ii) Prepare the Annual Investment Reports and present to the Board
- iii) Appoint / discharge the Investment Manager
- iv) Provide cash flow forecasts that outline amounts and timing of cash transfers (deposits / withdraws) on at least an annual basis to the Investment Manager
- v) Evaluate and meet with Investment Manager on at least an annual basis

c) Investment Manager / Delegated Staff

- i) Develops investment strategies that meet Housing York's investment objectives, risk tolerance and cash flow needs, including recommendations for the target asset mix
- ii) Establishes trader authority limits, roles and responsibilities of the Investment Management Team
- iii) Manages investment activities of the portfolio with discretion and in accordance with this Policy

- iv) Enters into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities
- v) Accounts for the bookkeeping of all investment transactions and the safekeeping of securities
- vi) Reports to the President and the Chief Financial Officer no less than semi-annually
- vii) Assists the President and the Chief Financial Officer in the preparation of annual investment reports to the Board

8. Performance Monitoring and Management

a) Reporting Requirements

The Investment Manager shall prepare a semi-annually report for the Chief Financial Officer. The report shall contain but not limited to the following information:

- i) Monthly average rate of turn on the portfolio
- ii) Average days to maturity
- iii) Monthly portfolio composition
- iv) Mark to market valuation

At a minimum, a consolidated investment report shall be presented annually by the President and Chief Financial Officer to the Board to update administration on securities held, maturities, investment returns, unrealized gains (or losses), comparison to established benchmarks, market conditions, prevailing investment strategy, and adherence to the investment policy. Securities will be reported on a marked to market basis as defined by the Public Sector Accounting Board (PSAB).

b) Performance appraisal

The President and the Chief Financial Officer will review the performance of the Investment Manager on an annual basis. A consolidated annual performance review report will be prepared for the Board. The review shall include:

- i. The measurement of market returns and a comparison to the returns of an appropriate index
- ii. The measurement of risk diversification compared to the diversification of a comparable index
- iii. An evaluation of the Investment Manager' adherence to this policy and any other policies and guidelines set out for specific portfolio.

- iv. Any other pertinent information that may explain the Investment performance or current capital market conditions.

c) Benchmarks

It is expected that the investment portfolio will earn an average rate of return that is at least commensurate with the investment risk constraints and cash flow needs set out for the portfolio. On a quarterly basis, the market rate of return of the portfolio, including realized and unrealized gains or losses, will be evaluated over at least three-year periods and be compared to appropriate benchmarks. Market returns will be calculated on a time-weighted basis before investment fees.

Investment performance will be measured against the following benchmarks.

Asset Class	Benchmark
Short-term (under 1 year)	FTSE TMX 30-day T-bill Index
Fixed Income (over 1 year)	70% of FTSE Short-Term Government Bond Index + 30% of FTSE Short-Term Corporate AA Bond Index

To evaluate the performance of the investment portfolio, the weighting of each index in the benchmarks will be determined by the Investment Manager. The weightings shall reflect the target asset mix of the portfolio. The performance benchmarks and the weightings of the indices shall be reviewed at least semi-annually, and may be adjusted if there are material changes in the duration of the indices and the portfolio.

d) Monitoring of Asset Mix

It is expected the portfolio asset mix is maintained within the target asset mix range. The Investment Manager will monitor the asset mix of the portfolio at least quarterly to ensure that the mix is within the guidelines established in this Policy. If the portfolio asset mix falls beyond the maximum mix, the portfolio should be rebalanced to the target mix.

e) Dismissal of Investment Manager

When an Investment Manager is used, it is the President and the Chief Financial Officer’s responsibility to evaluate the Investment Manager’s performance and decide if their services will be terminated. The following factors will be considered when making such a decision.

- i. Performance results below the stated performance objectives over a reasonable time period.

- ii. Changes in personnel, firm structure, fees, ownership and/or investment style or approach which might adversely affect the potential return and/or risk level of the portfolio.
- iii. Failure to adhere to the stated investment guidelines.
- iv. Any material reputational or solvency event, as determined by the Region.

9. Safekeeping and Custody

All securities shall be held for safekeeping by a financial institution approved by Housing York. All securities shall be held in the name of the Investment Manager on behalf of Housing York.

The depository shall issue a safekeeping receipt to the Investment Manager listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for Housing York, the book value of the holdings and the market value at month-end.

10. Investment Policy Review

This Policy shall be reviewed at a minimum of every three years by the President and the Chief Financial Officer prior to being presented to the Board for approval.

Appendix 1

Housing York Inc.

Approved List of Eligible Investments

Sector	Minimum Credit Rating	Sector/Credit Exposure Limitation (Maximum)		Sector Term Limitation (Maximum)
		Portfolio Limitation	Individual Limit	
<u>Government of Canada</u>				
Government of Canada	N/A	100%	N/A	10 Years
Federal Guarantees	N/A	50%	10%	10 Years
Federal Total		80%		
<u>Provincial</u>				
Provincial ¹	AA	75%	35%	10 Years
	A	25%	15%	10 Years
	BBB	10%	5%	5 Years
Provincial Total		80%		
<u>Municipal</u>				
Region of York ²	N/A	25%	25%	10 Years
Other Municipalities	AAA	35%	5%	10 Years
	AA	25%	5%	10 Years
	A	10%	2%	5 Years
Municipal Total		35%		
<u>Banks</u>				
Schedule I Banks	AA(L)	60%	25%	10 Years
	A	40%	25%	2 Years
Schedule II Banks	A	25%	10%	2 Years
Banks Total		60%		

¹ Includes provincial guarantees

² Includes debt of its constituent municipalities

Other Restrictions

1. Term is limited to an individual maximum term of 10 years for certain securities and the weighted average term shall not exceed 4 years for the portfolio.
2. Non Canadian currency securities cannot total more than 10% of the portfolio.