

The Regional Municipality of York

Housing York Inc.
December 13, 2017

Report of the
General Manager
and
Chief Financial Officer

Housing York 2018 Budget

1. Recommendation

It is recommended that:

1. The Board of Directors approve Housing York Inc.'s 2018 Budget as summarized in Attachment 1.

2. Purpose

This report seeks the Board's approval of Housing York Inc.'s (Housing York) 2018 Budget summarized in Attachment 1.

3. Background and Previous Council Direction

The Board approved a new long-term fiscal plan for Housing York

In [November 2017](#), the Board of Directors approved a new long-term fiscal plan for Housing York. The fiscal plan was developed to ensure Housing York remains fiscally responsible, safeguards its assets and is accountable for effectively managing its resources. The fiscal plan includes:

- a reserve strategy that sets goals and objectives for Housing York's reserves
- a new 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

The Board approved reserve strategy provides for changes to current reserves to ensure Housing York can effectively and efficiently respond to capital and operating needs. The Capital Repair and Replacement Reserve was repurposed to fund planned capital repairs for the entire Housing York portfolio. This eliminates spikes in demand on capital reserves and capital funding requests needed from the Region.

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
- an annual draw of \$3.6 million from the Regionally Owned Housing Reserve

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 reserves. As a result, Housing York will be requesting an annual reserve draw of \$3.6 million from the Regionally Owned Housing Reserve beginning in 2018.

4. Analysis and Implications

The 2018 Budget supports implementation of Housing York's 2017 to 2020 Plan

In 2018, Housing York will focus on implementing the second year of [Housing York's 2017 to 2020 Plan, Achieving New Heights Through Innovation and Sustainability](#). Actions to be accomplished in year two of the Plan are highlighted in Attachment 1. Implementing the key actions are primary drivers determining the revenue, expenditures and reserves captured in Housing York's 2018 Budget.

Housing York is projecting a surplus of \$1.1 million

Housing York's 2018 budget reflects a surplus of \$1.1 million before contributions to reserves. The budget enables Housing York to implement strategic directions, manage increasing service demands and maintain existing service levels. Housing York's 2018 budget summary is presented in Table 1. The budget details are outlined in Attachment 1.

**Table 1
Housing York 2018 Budget Summary**

	2017 Budget (\$000)	2018 Budget (\$000)	Budget Variance (\$)	Budget Variance (%)
Rental Revenue	19,917	20,030	113	0.6%
Non-Rental Revenue	1,022	1,033	11	1.1%
Government Subsidies	15,996	17,312	1,316	8.2%
Total Revenue	36,935	38,375	1,440	3.9%
Operating Expenditures	35,758	37,242	1,484	4.2%
Operating Surplus before reserve contributions	1,177	1,133	(44)	-3.7%
Contributions to Reserves	714	1,133	419	58.7%
Net Surplus/(Deficit)	463	0	(463)	-100%

Housing York's revenue increases are driven by additional government subsidies

Total revenue is projected to increase by 3.9 per cent or \$1.4 million in 2018 due to increases in rental revenue (market and subsidized rent), non-rental revenue, and government subsidies.

- Market rent, set at the lower end of private market rent, is projected to increase by \$56,000 largely driven by a rent adjustment of 1.8 per cent as per the 2018 Ontario Rent Increase Guideline, offset by a shift in unit mix from market rent to subsidized rent
- Rent for subsidized units was held constant but the conversion of market rent units into subsidized rent units resulted in an increase in subsidized rental revenue of \$57,000
- Non-rental revenue is projected to increase by \$11,000 due to minor increases in parking fees and antenna licenses
- Government subsidies are projected to increase by \$1.3 million due to:
 - an increase in subsidies for capital repairs (\$0.4 million)
 - additional rent assistance for two properties in the Regional Housing program (\$0.6 million)

- o additional subsidies for emergency housing including the Sutton Youth Shelter (\$0.3 million)

Housing York's increase in expenditures are driven by higher capital reserve contributions

Expenditures are projected to increase by 4.2 per cent or \$1.5 million in 2018. The main drivers are:

- a 1.6 per cent or \$130,000 increase in maintenance and direct labour due to inflationary pressures forecasted in building maintenance
- a 21.0 per cent or \$1.4 million increase in budgeted contributions to capital reserves
- an increase in natural gas and water rates offset by a decrease in hydro rates leading to an overall decrease of \$120,000 in utilities
- a \$176,000 increase in property taxes based on updated property value assessments

Housing York will continue upgrading its property management software to enhance customer service and strengthen organizational capacity

Housing York currently uses Yardi as its property management software system. A key deliverable in the [2017 to 2020 Plan, Achieving New Heights Through Innovation and Sustainability](#), and the [2017 Business Plan and Budget](#) was upgrading Yardi to a newer version and purchasing new modules to modernize service delivery, measure customer service level standards, and analyze costs more efficiently and comprehensively.

The cost of the licenses for the additional modules was factored into the 2017 budget. Implementation costs will decrease in 2018 as the majority of the consultation work was completed in 2017.

Housing York committed to investing \$8.4 million in capital repairs and upgrades

Housing York plans to invest \$8.4 million in capital repairs and upgrades during 2018. More than half of the expenses will go towards interior building repairs such as elevator modernization and kitchen and bathroom upgrades. A quarter of overall expenditures will be spent on exterior building repairs mainly for roof replacements. The significant investment is confirming Housing York's commitment to provide residents with access to affordable housing units that are well maintained.

Net surplus of \$1.1 million allocated to reserves

The 2018 budget projects a net surplus, before reserve allocations of \$1.1 million. The surplus will be allocated to the reserves according to the Operating Surplus Policy to support long-term sustainability. A breakdown of the projected reserve balances at the end of 2018 are provided in Attachment 1.

5. Financial Considerations

The Housing York 2018 budget projects revenue of \$38.37 million and expenses of \$37.24 million resulting in a \$1.1 million operating surplus. The surplus will be allocated to reserves in accordance with the Operating Surplus Policy outlined in Housing York's Fiscal Plan.

6. Local Municipal Impact

Housing York operates 37 buildings in all nine municipalities housing over 4,000 residents. The 2018 Budget gives Housing York the necessary fiscal stability and sustainability needed to continue to provide quality affordable housing to York Region residents.

7. Conclusion

Housing York is projecting a \$1.1 million operating surplus in 2018. Housing York will continue to operate and manage its housing portfolio in a financially prudent manner throughout the period covered by the proposed budget.

Housing York 2018 Budget

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

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

November 22, 2017

Attachment (1)

#7865711

Accessible formats or communication supports are available upon request



2018 Housing York Inc. Budget



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Housing York Inc. at a glance

Housing York Inc. (Housing York) is the Regional Municipality of York's housing corporation. Housing York was formed in 2003 through the amalgamation of the York Regional Housing Corporation and the Region of York Housing Corporation. Since then, Housing York has grown by more than 945 units and is now the seventh largest housing provider in Ontario.



The Housing York Inc. Plan 2017 to 2020: Achieving New Heights Through Innovation and Sustainability

In November 2016, the Housing York Board of Directors approved the [2017 to 2020 Housing York Plan: Achieving New Heights Through Innovation and Sustainability](#). The Plan sets the course for future growth and sustainability through the following five strategic directions:

1. Strengthening community health
2. Building long-term financial sustainability
3. Effectively managing assets
4. Providing good governance and strengthening organizational capacity
5. Supporting and informing Regional housing initiatives

In 2018, Housing York will focus on implementing the second year of the 2017 to 2020 Plan. Actions to be accomplished in year two of the Plan are highlighted below.



Strengthen community health

- Develop a strategy to support diversity and inclusion for residents
- Develop and implement a communication plan that leverages technology to encourage greater interaction between residents and Housing York



Build-long term financial sustainability

- Develop a program framework to manage Housing York's role in emergency housing facilities



Effectively manage assets

- Develop a portfolio management strategy (retention, divesture, acquisition, development) that optimizes the number of quality affordable homes within the projected financial resources
- Create an energy management plan that will guide future energy initiatives



Provide good governance and strengthen organizational capacity

- Develop a performance management framework that encourages efficiency and measures operational effectiveness
- Upgrade the information technology system to enhance services for residents and vendors



Inform and implement Regional housing initiatives

- Leverage Housing York's expertise to inform York Region's affordable housing policies and initiatives, such as providing Housing York Board advice on income and asset rent subsidy policy options for Regional Council consideration
- Explore financing and equity-leveraging opportunities, such as the Canadian Housing Finance Authority

Housing York's Long-Term Fiscal Plan

In November 2017, Housing York's Board of Directors approved a new long-term fiscal plan for the corporation. The fiscal plan was developed to ensure Housing York remains fiscally responsible, safeguards its assets and is accountable for effectively managing its resources. The fiscal plan includes:

- A reserve strategy that sets goals and objectives for Housing York's reserves
- A new 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

The reserve strategy will ensure Housing York can effectively and efficiently respond to capital and operating needs. A significant change was consolidation of the Capital Repair and Replacement Reserve to fund planned capital repairs for the entire Housing York portfolio – eliminating spikes in demand for capital reserves and capital funding requests needed from York Region. Under the consolidated reserve fund, 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 while ensuring that funds are available in the future when the newer buildings are older. 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. The strategy is supported by detailed analysis of each programs capital repair needs and reserve contributions over the next forty years.

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
- Fifty per cent of annual operating surpluses
- An annual draw of \$3.6 million from the Regionally Owned Housing Reserve

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 reserves. As a result, Housing York will be requesting an annual reserve draw of \$3.6 million from the Regionally Owned Housing Reserve beginning in 2018.

2018 Operating budget

2018 Operating budget overview

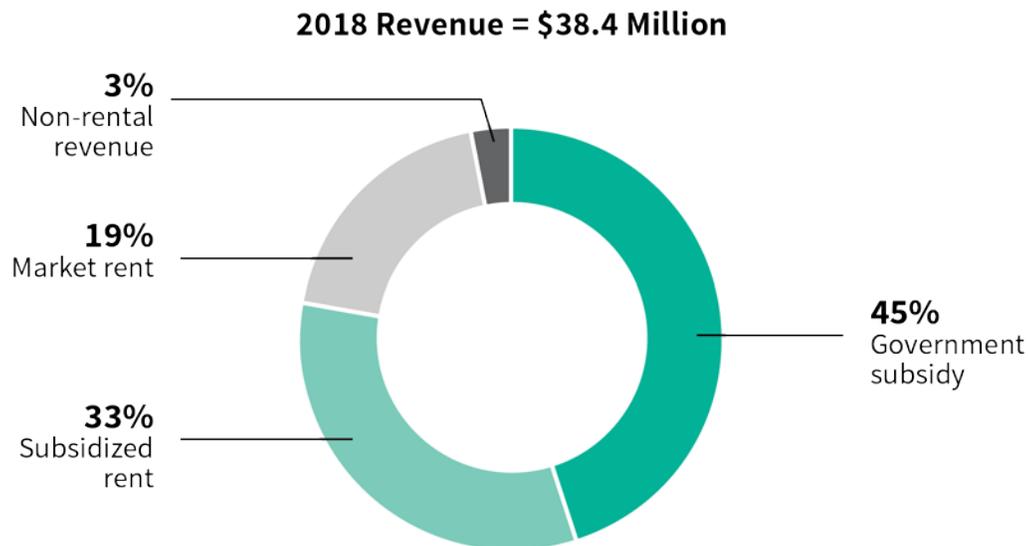
Housing York’s 2018 budget reflects a surplus of \$1.1 million before contributions to reserves. The budget enables Housing York to implement strategic directions, manage increasing service demands and maintain existing service levels. Housing York’s 2018 budget summary is presented below. The details of the operating budget are shown in Appendix 1.

2018 Operating budget summary

	2017 Budget	2018 Budget	2018 Budget Variance	
	(\$000)	(\$000)	(\$000)	(%)
Rental revenue	19,917	20,030	113	0.6%
Non-rental revenue	1,022	1,033	11	1.1%
Government subsidies	15,996	17,312	1,316	8.2%
Total revenue	36,935	38,375	1,440	3.9%
Operating expenditures	35,758	37,242	1,484	4.2%
Operating surplus before reserve contributions	1,177	1,133	(44)	-3.7%
Contributions to reserves	714	1,133	419	58.7%
Net surplus/(deficit)	463	0	(463)	-100%

Revenue

Total revenue is projected to be \$38.4 million in 2018. Rental revenue from residents make up more than half of total revenue with the remainder coming from government subsidies and a small portion from non-rental revenue.

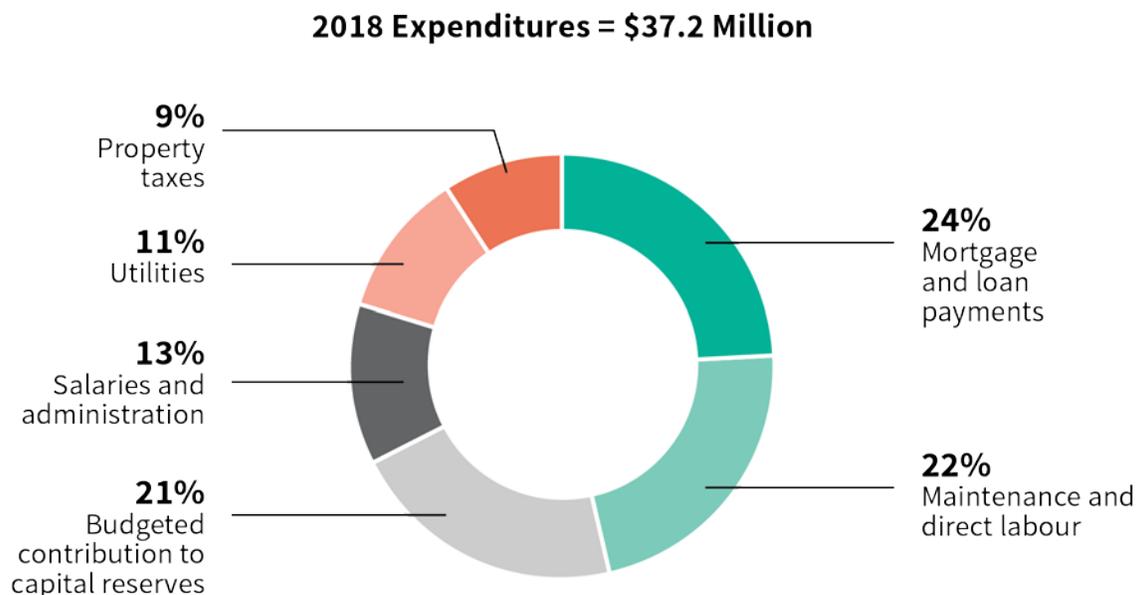


Total revenue is projected to increase by \$1.4 million or 3.9 per cent over 2017 due to increases in rental revenue, non-rental revenue and government subsidies. Rental revenue is the portion of rent that is collected directly from residents; this includes market rent and the portion of rent a subsidized tenant pays.

- Market rent, set at the low end of private market rent, is projected to increase by \$56,000 largely driven by a rent adjustment of 1.8 per cent as per the 2018 Ontario Rent Increase Guideline, offset by a shift in the unit mix from market to subsidized rent
- Rent for subsidized units was held constant but the conversion of market rent units into subsidized rent units resulted in an increase in subsidized rental revenue of \$57,000
- Housing York generates non-rental revenue through parking charges, coin laundry and rental of commercial space. Non-rental revenue is projected to increase by \$11,000 due to minor increases in parking fees and antenna licenses
- Government subsidies are projected to increase by \$1.3 million due largely to:
 - An increase in subsidies for capital repairs (\$0.4 million)
 - Additional rent assistance for two properties in the Regional Housing program (\$0.6 million)
 - Additional subsidies for emergency housing including the Sutton Youth Shelter (\$0.3 million)

Expenditures

Total expenditures are projected to be \$37.2 million in 2018. Maintenance, direct labour, mortgage and loan payments make up almost half of total expenditures.



Total expenditures are projected to increase by \$1.5 million or 4.2 per cent over 2017. The main drivers are:

- An increase of 1.6 per cent or \$130,000 in maintenance and direct labour due to inflationary pressures forecasted in building maintenance
- A decrease of 1.1 per cent or \$104,000 in mortgage payments resulting from a full year of savings from two mortgages that renewed in 2017 at lower interest rates. Housing York is expecting to benefit from lower rates for two more mortgages renewing in 2018
- An increase of 21 per cent or \$1.4 million in budgeted contributions to capital reserves:
 - In 2017, \$700 per unit was contributed to capital reserves for properties in the Regional Housing program. Since this amount is insufficient to meet capital needs over the longer term, the amount was increased to \$2,000 per unit beginning in 2018. This increases the contribution to capital reserves by almost \$1 million per year
 - An additional contribution of \$416,000 for capital repairs for properties in the Public Housing program, in line with Housing York's new reserve fund strategy
- An increase in natural gas and water rates offset by a decrease in hydro rates leading to an overall decrease of \$120,000 in utilities. Hydro rate assumptions are determined by the province for the majority of Housing York properties. The province uses the change in the Consumer Price Index for electricity to determine the hydro rate
- An increase of \$176,000 in property taxes based on updated property value assessments. Although property taxes increased on average by 5.2 per cent, some property values will increase by over 10 per cent in 2018

Property management system software upgrade

Housing York currently uses Yardi as its property management software system. A key deliverable in the 2017 to 2020 Plan and the 2017 Business Plan and Budget recommended upgrading Yardi to a newer version and purchasing new modules to modernize service delivery, measure customer service level standards, and analyze costs more efficiently and comprehensively.

Housing York completed the upgrade to the newer version of the property management software in 2017. In 2018, Housing York plans to implement the second phase of the system upgrade as approved in the 2017 to 2020 Plan. This will include new modules and functionalities like:

- Tenant portal – allowing tenant access to manage their accounts, make rent payments, create maintenance requests, and encourage interaction between residents and Housing York.
- Construction module – allowing workflow integration between technical services, operations and finance resulting in improved data quality, process flow and streamlined vendor/client transactional process
- Preventative maintenance – streamlining the unit inspection process and automating the preventative maintenance schedule resulting in increased operational efficiency

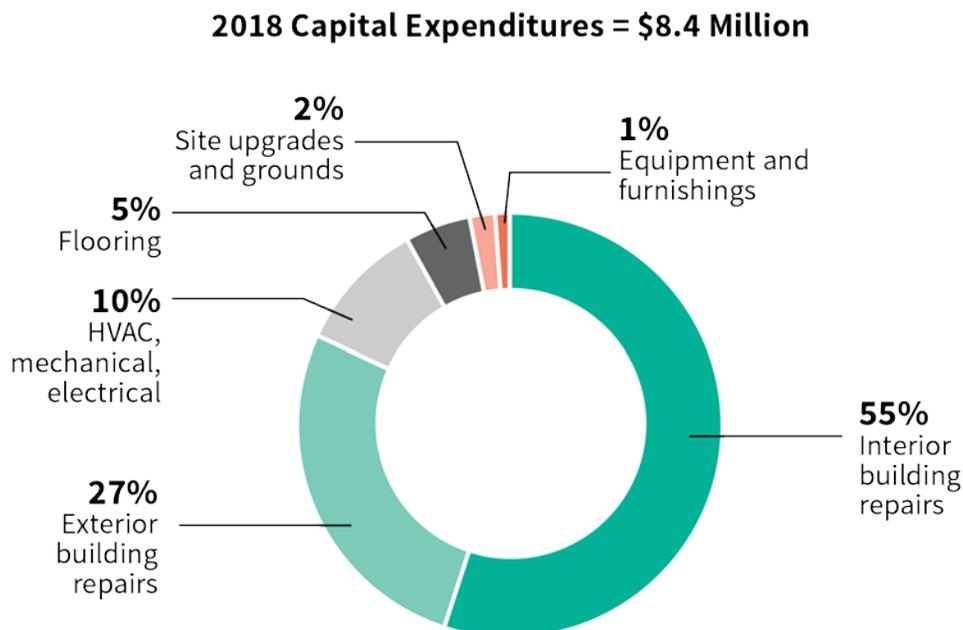
The cost of the licenses for the additional modules was factored into the 2017 budget. Although the contract for the additional modules still needs to be negotiated, 2018 costs are estimated at \$100,000. Implementation costs will decrease in 2018 as the majority of the consultation work was completed in 2017. Table 1 outlines the projected costs of the property management system software upgrade.

Table 1
Yardi upgrade costs

	2017 Budget (\$)	2018 Budget (\$)
Current system	83,640	87,741
Additional modules	105,435	100,000
Total annual license fees	189,075	187,741
Implementation costs	172,600	46,250
Total cost	361,675	233,991

2018 Capital expenditures

Housing York plans to invest \$8.4 million in capital repairs and upgrades during 2018. More than half of the expenditures will go towards interior building repairs such as kitchen and bathroom upgrades, and elevator modernization. Another 25 per cent will be spent on exterior building repairs (mainly for roof replacements).



2018 Reserves

Housing York's 2018 budget projects a net surplus, before reserve allocations, of \$1.1 million. It is important for Housing York to continue to generate surpluses to support long-term sustainability. Table 2 shows how the projected surplus will be allocated to the reserves according to the Operating Surplus Policy. The projected 2018 ending balances for all of Housing York's reserves are detailed in Appendix 2.

Table 2
Allocation of operating surplus to reserves

	Surplus Allocation (\$000)
Capital Repair and Replacement Reserve	530
Insurance Reserve	50
Operations Reserve	50
Strategic Initiatives Reserve	430
Emergency Housing Reserve	73
Total	1,133

Appendix 1

2018 Housing York operating budget

	2017 Budget (\$000)	2018 Budget (\$000)	2018 Variance	
			(\$000)	(%)
Revenue				
Market rent	7,230	7,286	56	0.8%
Subsidized rent	12,687	12,744	57	0.4%
Non-Rental revenue	1,022	1,033	11	1.1%
Government subsidies	15,996	17,312	1,316	8.2%
Total revenue	36,935	38,375	1,440	3.9%
Expenditures				
Maintenance and direct labour	7,970	8,099	129	1.6%
Mortgages/Lease Payments	9,063	8,959	(104)	-1.1%
Budgeted contribution to Capital Reserves	6,509	7,876	1,367	21.0%
Salaries and administration	4,750	4,786	36	0.8%
Utilities	4,075	3,955	(120)	-2.9%
Property taxes	3,391	3,567	176	5.2%
Total expenditures	35,758	37,242	1,484	4.2%
Operating surplus before reserve contributions	1,177	1,133	(44)	-3.7%
Contributions to reserves	714	1,133	419	58.7%
Net surplus/(deficit)	463	-	(463)	-100.0%

Note: Market rent only includes the portion of rent that is collected directly from residents. Any subsidy that Housing York receives for market residents, including rent supplements, are now included in government subsidies. The 2017 budget has been restated to reflect this change.

Appendix 2

2018 Estimated reserve balances

	Capital Reserves (\$000)	Working Capital Reserve (\$000)	Insurance Reserve (\$000)	Operations Reserve (\$000)	Strategic Initiatives Reserve (\$000)	Emergency Housing Reserve (\$000)
Projected 2018 opening balance	6,077	3,500	180	500	834	521
Budgeted contribution	7,669		25			237
Projected reserve interest income	69					6
Projected expenditures	(8,300)		(75)	(50)		(101)
Contribution from operating surplus	530		50	50	430	73
Projected 2018 ending balance	6,045	3,500	180	500	1,264	736