



Date: December 13, 2012

Report to: Board of Directors

Submitted by: Brenda Osborne,
Chief Executive Officer/
Secretary

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Business Administrator

Subject: **Proposed 2013 CHH Operating Budget (Report #12036)**

RECOMMENDATION

- i) That Report #12036 be received for information; and,
- ii) That the board adopt and approve the 2013 Operating Budget totalling \$67,456,863.

Brenda Osborne,
Chief Executive Officer/Secretary

BACKGROUND

Proposed 2013 CityHousing Hamilton Operating Budget

Summarized 2013 Operating Budget data is listed below:

Summarized:

	2012 Budget			2013 Budget	2012 vs 2013 Budget variance	% change
SUMMARY						
Total Revenue	\$ 66,321,104			\$ 67,456,863	\$ 1,135,759	1.7%
Total Expenditures	\$ 66,321,104			\$ 67,456,863	\$ 1,135,759	1.7%
Current Year Surplus/(Deficit)	\$ -			\$ -		

Summarized data for the 2013 budget shows an increase of 1.7% overall in both total revenue and expenditures over the 2012 budget. Detailed account category sections are itemized below:

Detailed:

Description	2012 Budget	2012 Forecast	2012 Variance	2013 Budget	2012 vs 2013 Budget variance	% change over 2012
Operating Revenue	\$ 34,912,297	\$ 35,023,755	\$ 111,458	\$ 35,216,576	\$ 304,279	0.9%
City of Hamilton(Service Manager) Subsidy	31,408,807	31,358,957	(49,850)	32,240,287	831,480	2.6%
Total Revenue	\$ 66,321,104	\$ 66,382,712	\$ 61,608	\$ 67,456,863	\$ 1,135,759	1.7%
Salaries & Benefits	\$ 9,070,050	\$ 8,688,624	\$ 381,426	\$ 9,022,006	\$ 48,044	-0.5%
Other Administration	2,408,993	2,396,963	12,030	2,392,865	16,128	-0.7%
Maintenance	10,794,094	11,447,001	(652,907)	12,917,708	(2,123,614)	19.7%
Utilities	10,071,521	10,120,598	(49,077)	9,789,204	282,317	-2.8%
Municipal Taxes	12,400,015	12,359,909	40,106	12,447,038	(47,023)	0.4%
Amortization & Interest	13,697,270	13,710,652	(13,382)	13,008,878	688,392	-5.0%
Capital Reserve Allocation	7,879,161	7,879,164	(3)	7,879,164	(3)	0.0%
Total Expenditures	\$ 66,321,104	\$ 66,602,911	\$ (281,807)	\$ 67,456,863	\$ (1,135,759)	1.7%
Current Year Surplus/(Deficit)	\$ -	\$ (220,199)	\$ (220,199)	\$ -	\$ -	

Explanations of the budgeted changes and/or assumptions incorporated into this proposed 2013 budget are as follows:

REVENUE

CHANGE IN PROCEDURE

With the Northgate Housing software, all units are now set up with the Gross Rent Potential applicable to this unit. Tenants moving into a unit will have a Tenant Rent Limit (their monthly rent charge) set up. The difference between these two values would be the subsidy owing from the Service Manager for this unit.

This change will ensure that CityHousing records rental revenue for all units whether rented or vacant.

The 2013 budget incorporates this change in practice as it more accurately reflects industry standard. This is quite different from prior practice where the budgeted revenue was calculated based on the amount the tenant was paying.

OPERATING REVENUE

- Gross rent potential budgeted for 2013 reflects an increase of 2.8% over prior year. This incorporates a 2.5% increase due to the rental increase guidelines (announced in July 2012). This guideline is based on the Ontario Consumer Price Index (CPI) and has been applied to all properties in the portfolio.

VACANCY LOSS

CHANGE IN PROCEDURE

With the Northgate Housing software, vacancy loss is calculated on all units for any increment of vacancy (ie, a day, a week, six months etc) The system will automatically calculate this vacancy loss where prior to Northgate, vacancy loss was an estimated manual calculation for benchmarked properties only.

- The 2013 budget incorporates a vacancy loss of \$2,804,696 which represents 4.1% of total gross rent potential. A detailed analysis was conducted on existing vacancies within the portfolio which are averaging approximately 400 vacancies per month.

SUBSIDY

- Total subsidy has increased 2.6% from the 2012 budget. Of this total, the benchmarked portfolios experienced a reduction of 0.8% in subsidy. This is due to mortgage renewals that have come in at substantially lower rates than the previous term.

- Rent Supplement is showing an increase over prior year budget of 10.0%. Rent supplement is provided at the following properties: 360 King Street, Macassa, and Queenston.
- Public Housing funding has increased 3.5% over prior year. This funding now follows the parameters set out in the Operating Agreement between the City of Hamilton as Service Manager and CityHousing Hamilton Corporation. This Operating Agreement was approved at the May 23, 2012 council meeting and refers to Report CS12002 brought forward by the Emergency and Community Services Committee at the May 14, 2012 committee meeting.

Detailed subsidy per funding model is shown below:

Funding model	2012 Budget	2013 Budget	% change
Provincial Benchmarked	7,699,071	7,684,696	-0.2%
Pre '86	133,420	120,080	-10.0%
Federal	153,290	120,955	-21.1%
Public Housing	22,406,256	23,195,728	3.5%
Rent Supplement	1,016,770	1,118,828	10.0%
TOTAL SUBSIDY	31,408,807	32,240,287	2.6%
Benchmarked	7,985,781	7,925,731	-0.8%
Supplement	1,016,770	1,118,828	10.0%
Public Housing	22,406,256	23,195,728	3.5%
TOTAL SUBSIDY	31,408,807	32,240,287	2.6%

ADMINISTRATION

SALARIES & WAGES

- Salaries, wages and benefits have decreased a total of \$48,004 over the 2012 budget. This is due to:
 - Reduction of 1 FTE (Master Electrician). Upon further analysis during 2012, it was determined that resuming services with the ESA was preferable than an on site Master Electrician. This reduction represented \$90,076 in salary/benefit savings
 - The savings from this FTE reduction is offset by benefit increases such as Liberty Health, and OMERS.

OTHER ADMINISTRATION

- Other Administration has decreased just under \$20,000 over prior year budget. Main cost drivers include:
 - Insurance premiums - reductions in premium costs reflect a favourable variance for this budget year.
 - Tenant Engagement - increased allocation of budget funds to tenant engagement is in line with the directives from the Tenant Engagement Report.
 - Training/Professional development - continued training directives outlines in the Housing Services Act has required an increase in funds allocated

REPLACEMENT RESERVE ALLOCATION

- There has been no change in the replacement reserve allocation from prior year

MAINTENANCE

- Budgeted maintenance costs are showing an increase of 19.7% over prior year. This represents:
 - Increased analysis and detailed budgeting of the fixed service contracts within this section. Total fixed contract costs represent \$3.5m (27%) of the total maintenance budget. In prior years, these fixed contracts were incorporated in with the variable maintenance costs which made it difficult to confirm and analyze. For this budget year, these contracted services were budgeted separately to ensure accuracy. Contracted services are represented by:
 - Pest Control
 - Snow Removal
 - Site Maintenance
 - Elevator Mntce
 - Smoke Detector
 - Fire Alarms
 - Janitorial
 - Heating & Ventilation

Almost all cost categories are showing an increase over the 2012 budget. The revised process for budgeting the preventative maintenance contracts represents a portion of this increase. As an example, the new contract for preventative maintenance of the Heating and Ventilation systems was expanded to include additional required services; this has increased the overall contract by about \$500,000.

Other cost drivers reflected within the Maintenance section include:

- Flooring
- Unit Retrofit
- Life Safety
- Electrical

UTILITIES

- Utilities are showing a decrease of \$282,317 or 2.8%. The budgeting process incorporated the following benchmarked indices in budgeting 2013 utility costs:
 - Electricity 7.51%
 - Water 6.31%
 - Fuel (10.9%)
- The following savings were also incorporated into the 2013 budget as a conservative estimate relating to energy related projects conducted in 2012 and 2013:
 - Fuel \$131,943
 - Water \$ 67,244

CHH is currently receiving Energy benefits of 10% for some portfolios; in discussions with the Energy Coordinator, he has confirmed that this program will continue for 2013. A conservative estimate of \$141,005 in savings has been incorporated in the 2013 budget.

REALTYTAXES

- The 2013 budget includes an estimate of 1% increase in realty taxes. As property taxes are fully funded from the Service Manager, this increase would also be reflected in increased subsidies. As some of our

AMORTIZATION OF CAPITAL COSTS/MORTGAGE INTEREST

Mortgage/Debenture Interest

-combined reduction of \$851,279. The First Place mortgage renewal represents the majority of this reduction. Other mortgage renewals with reduced interest rates have contributed favourably to this reduction.

SUMMARY

The process for establishing the proposed 2013 Operating Budget has followed the same procedure as last year. Similar to last year, the operating budget was prepared at the same time as the City's budget process to ensure appropriate alignment and opportunity for discussion by the Board.

Property Management staff were directly involved in budgeting variable operating costs on a building-by-building basis for their respective portfolios based on trending patterns for the last two years. These individual building budgets were then were rolled up to create an overall CityHousing Hamilton budget.

A key challenge continuing to face CityHousing Hamilton and other social housing providers and private sector landlords in Hamilton and across southern Ontario continues to be bedbugs. CityHousing Hamilton has allocated \$1.2million to pest control in the Maintenance budget. The new bed bug contract and new structure for the bed bug treatment process will allow CityHousing Hamilton more control over the process and potentially reduce costs.

Finally, deferred maintenance costs are continuing to put pressure on large expenditure items such as unit retrofit and flooring.

CITYHOUSING HAMILTON OPERATIONAL PLAN

This report implements:

Goal 1: Create Financial Sustainability – *Ensure that CityHousing Hamilton has sufficient capital to invest in buildings to minimize the impact on City of Hamilton taxpayers.*

BO/MZ