



CityHousing Hamilton Corporation

2016

BUDGET

Date: December 10, 2015

Report to: CityHousing Hamilton Corporation
Board of Directors

Submitted by: Tom Hunter,
Chief Executive Officer/
Secretary

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Chief Financial Officer

Subject: CityHousing Hamilton Corporation
Proposed 2016 Operating Budget
(Report #15032)

RECOMMENDATION

- i) That Report #15032 be received for information; and
- ii) That the Board adopt and approve the CityHousing Hamilton 2016 Operating Budget

Tom Hunter,
Chief Executive Officer/Secretary

**CityHousing Hamilton Corporation
2016 Budget**

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INTRODUCTION

CityHousing Hamilton Corporation (CHH) is the largest provider of subsidized housing in the City of Hamilton, and the third largest Local Housing Corporation in the province of Ontario. CHH has an aging and diverse housing portfolio with approximately 7,100 housing units in over 1200 properties. The housing stock consists of apartment buildings, row housing, single family houses, semi-detached houses and commercial space.

CHH must maintain approximately 5,835 RGI units as per the Operating Agreement with the City of Hamilton and to meet the service level standards set by the Province. The balance of the portfolio is market rent or affordable rent. CHH has additional units subsidized through the rent supplement funding from the Service Manager, most of these units are at First Place.

The units that CHH owns represent an estimated asset value of approximately \$720 million. The annual operating budget is \$71.8 million and there are 150 FTE in staffing.

Summarized 2016 Operating Budget data is listed below:

SUMMARY	2016	2015	2016 vs 2015	% change
	Budget	Budget	Budget Variance	
Total Revenue	\$ 71,805,767	\$ 71,357,222	\$ 448,545	0.63%
Total Expenditures	\$ 71,805,767	\$ 71,357,222	\$ 448,545	0.63%
Current Years Surplus/Deficit	\$ (0)	\$ (0)	\$ 0.00	

2016 Financial Budget Overview

Revenues include \$35.2 M in subsidies and \$35.6 M in rent revenues. Other revenue of \$.947 M includes parking charges, laundry revenue, and rooftop rentals.

Operating expenses for 2016 are estimated at \$71.85 M, an increase of \$0.448 M from the 2015 budget, or 0.63%.

The staff complement is budgeted at 150 Full Time Equivalents in 2016. The mandate and staff responsibilities encompass the following areas:

- Administration
- Finance
- Operations
- Asset Renewal
- Maintenance
- Business Services
- Tenant Engagement and Support Services

Utilities, property taxes, mortgages and debenture costs represent over 52% (52%-2015) of total expenses. Staff salaries, maintenance materials and contracted services account for approximately 37% (37%-2015) total expenses. Approximately 11% (11%-2015) of the annual budget is allocated to the replacement and reserve fund for major building component replacements.

Chart 1 and 2 and Table 1 identify the major categories of Revenue and Expenses.

Chart 1

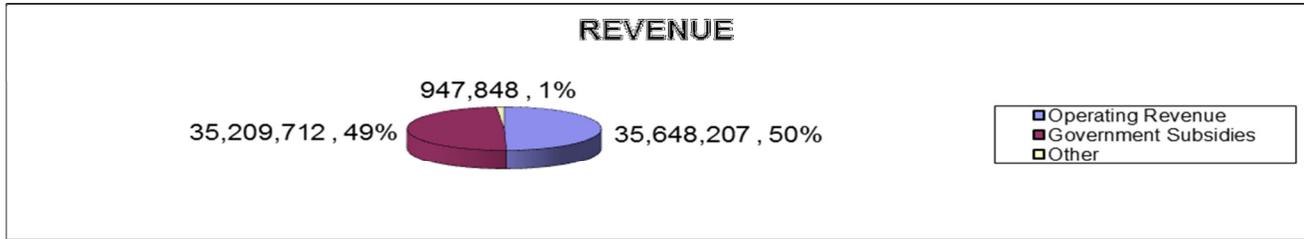


Chart 2

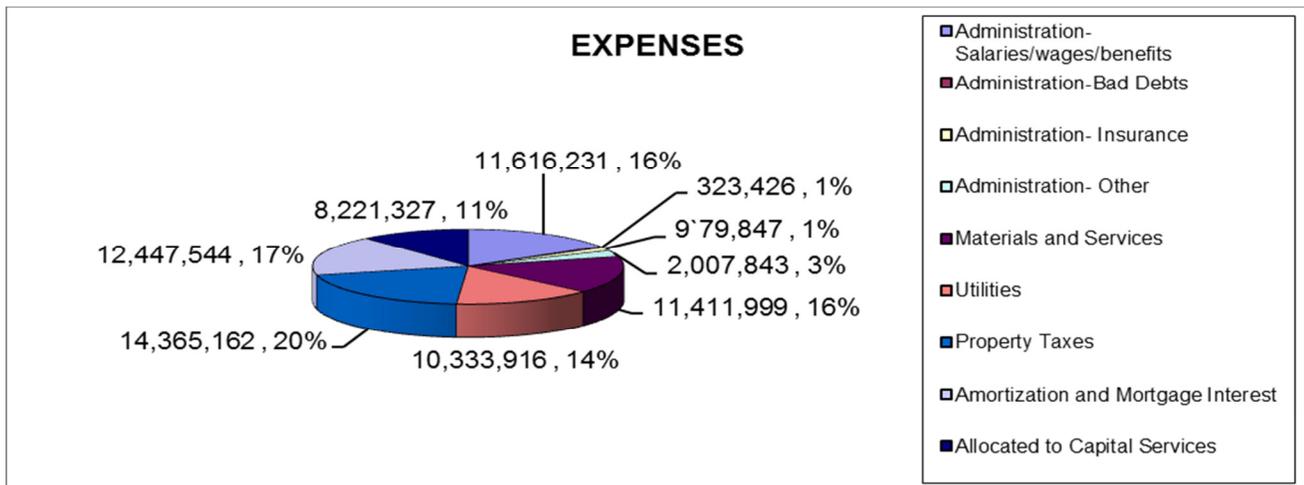


Table 1

Description	2016 Budget	2015 Budget	2016 vs 2015 Budget Variance	% change
REVENUE				
Operating Revenue	35,648,207	35,871,053	(222,846)	-0.62%
Government Subsidies	35,209,712	34,612,201	597,512	1.73%
Other	947,848	873,968	73,880	8.45%
TOTAL REVENUE	71,805,767	71,357,222	448,545	0.63%
EXPENSES				
Administration- Salaries/wages/benefits	11,616,231	11,349,364	266,867	2.35%
Administration- Bad Debts	323,426	324,931	(1,504)	-0.46%
Administration- Insurance	1,078,320	979,847	98,473	10.05%
Administration- Other	2,007,843	2,170,014	(162,170)	-7.47%
Materials and Services	11,411,999	11,388,892	23,107	0.20%
Utilities	10,333,916	10,378,158	(44,242)	-0.43%
Property Taxes	14,365,162	13,461,917	903,246	6.71%
Amortization and Mortgage Interest	12,447,544	13,118,839	(671,295)	-5.12%
Allocated to Capital Services	8,221,327	8,185,262	36,065	0.44%
TOTAL EXPENSES	71,805,768	71,357,222	448,546	0.63%
NET SURPLUS/(DEFICIT)	(0)	(0)	(0)	(0)

FINANCIAL ENVIRONMENT

The CHH budget has been prepared based on revenue (subsidy) dollars provided by the service manager and making the best use of discretionary funds to ensure the properties are well maintained and tenants are supported. The budget also takes into consideration the internalization of Pest Management Services, reducing commercial vacancies, reducing arrears and recovering cost of Landlord Tenant Board and repairs.

Operating Agreement with the City of Hamilton

In 2012, the City of Hamilton entered into an Operating Agreement with CHH which benchmarked the Public Housing Portfolio under the same formula as the Provincial Reformed Portfolio. Revenue and Expenses are benchmarked by the Province under the Housing Services Act, 2011 and the CHH budget is set accordingly by the Housing Services Division.

In 2014, CHH worked with the City of Hamilton Housing Services Division (Service Manager) to achieve service targets, reporting requirements, funding, and portfolio-wide management practices and will continue to do so in 2016.

REVENUES

Subsidies and Grants

Subsidies represent 49% of total revenue. The various subsidies include:

- Operating Subsidies
- Rent Subsidies
- Rent Supplements

Total subsidy has increased 1.73% from the 2015 budget. The increase is mainly due increase in realty taxes.

Rents

Rental income represents 50% of total revenue. The different types of rent are as follows:

- Rents Geared to Income (RGI)
- Rent Supplement
- Market Rent
- Affordable Market Rents
- Commercial Rents

▪ Rent-Geared-to-Income (RGI)

RGI rent is calculated based on guidelines from the Province of Ontario. Rent scales are set for tenants receiving assistance from the Ontario Disability Support Program or Ontario Works. Other tenants pay 30% of their gross income, with a minimum rent of \$85.

▪ Rent Supplement

The Rent Supplement Program offered by the Housing Services division provides additional RGI units in the community. The Housing Services Division covers the difference between the market rent and the RGI calculated rent to the housing provider.

▪ Market Rents

CHH communities developed under the previous Federal/Provincial Program (now Provincial Reformed Program) are comprised of a mix of RGI and market units.

CHH assesses rental market conditions in Hamilton and compares housing communities on the basis of locations, unit type and size, amenities, utilities being included with rent or not and past experience to determine market rents.

As a social housing provider, CHH is exempt, for most housing, from any requirement to use the maximum increase guideline of the rent control provisions of the Residential Tenancies Act. The rent review guideline for 2016 is 2.0%.

Market rents will increase by 2.0% in 2016 based on the anniversary date of the tenant.

- Affordable Housing Rents

Properties developed under the Affordable Housing Program provide units with rental rates at 80% of market rent.

- Commercial Rent Revenue

CHH has commercial space at 181 Main West, 162 King William, 210 King Street East, 360 King Street East, 89 and 95 King Street East. Commercial rental revenue accounts for 1.7% of all revenue.

Other Revenue

Other revenues are generated by parking charges, laundry cards, and rooftop antenna rentals. For 2016, other revenue is forecast as per the service manager's budget for 2016.

Vacancy Loss

Vacancy loss is calculated with the Northgate Housing software on all units for any increment of vacancy (i.e. a day, a week, six months etc.) The system will automatically calculate this vacancy loss. There is a manual calculation required for benchmarked properties only.

The 2016 budget incorporates a vacancy loss of \$2,628,193 which represents 4% (2015-4%) of total benchmarked gross rent potential.

EXPENSES

The 2016 Budget includes operating expenses of \$71.8 M, an increase of \$0.45 million from the 2015 budget, or 0.63%. Expenses can be divided into the following categories: Debt Servicing Costs, Utilities, Municipal Taxes, Annual Replacement and Reserve Allocations, Salaries and Benefits, Insurance, Bad Debts and Materials and Services.

Debt Servicing Costs

For most CHH housing (80% of the housing portfolio), debt servicing costs are fully funded under the Operating Agreement with the City of Hamilton. Debt payments related to mortgages and long term debenture debt represent \$12.44 million (17% of Budget).

Utilities

CHH is increasingly focused on energy conservation strategies that reduce costs for both CHH and for tenants who pay their own utility costs.

Utility costs are estimated at \$10.33 million (14% of budget), a decrease of \$44,242 (0.43%) from 2015.

Utility rate risk is another factor that has an impact on CHH. CHH has worked with HSC, the gas supply provider to mix the portfolio to fixed rate and market rate to mitigate some of the risk.

CHH is currently receiving the Clean Energy Benefit of 10% for some portfolios; that program has ended, in units where tenants pay their own utilities, CHH is encouraging them to apply for the rebates.

Municipal Realty Taxes

The 2016 Budget for property taxes is estimated at \$14.36 million (20% of Budget- 19% in 2015). The estimate is based on actual experience for 2015, adjusted for the average assessment change, and increased by 3.00%.

As property taxes are fully funded from the Service Manager for all funded portfolios, this increase will be reflected in increased subsidies. As some of our units are market portfolios and not subsidized, the increase in realty tax would be a cost to CHH.

Replacement and Reserve Allocations

Replacement and Reserve Allocations are estimated at \$8,221,327 (11% of budget). Replacement and Reserve allocation increased by 0.95% in subsidized portfolios. All Replacement and Reserve dollars is as per the Service Manager's Budget except for the Market portfolios.

Salaries and Benefits

The budget for salaries and benefits recognizes commitments made under union contracts and an estimate of compensation adjustments for management and exempt staff. The Budget for payroll costs is estimated at \$11.61 million (16% of budget).

Salaries, wages and benefits have increased to a total of \$266,867 over the 2015 budget. This is due to:

- Decrease in 2 positions
- Merit increases, Canada Pension Plan threshold increases, Employment insurance increases, Benefit increases.

Materials and Services

Materials and Services costs have increased by \$23,107 from 2014. These costs represent 16% of total expenses and reflect the moving pest control costs from maintenance to salaries and wages to account for the internalization of Pest Management Services.

Other Administration

Other Administration has decreased by \$162,170 over prior year budget. Main cost drivers include:

- Tenant Engagement - Allocation of budget funds to tenant engagement is in line with the directives from the Tenant Engagement Report. Decrease in cost for Annual General Meetings
- Training/Professional Development – Decrease in budget with a more combined effort on goals of CHH.
- Conferences – Decrease in budget.
- Cost for Rent Free Accommodation - With an increase in buildings having Superintendents, there has been an overall increase in the cost for rent free accommodation.

OPERATING FRAMEWORK

Most CHH housing stock has been acquired or constructed under numerous senior government funding programs, now consolidated into five program funding envelopes; Public, Provincial Reformed, Municipal Non-Profit (MNP), Federal and Market housing.

72% of the properties (the Public Housing Program) were built and operated directly by the Province of Ontario until 2001, when the Social Housing Reform Act (now the Housing Services Act, 2011) downloaded ownership to the municipality. Most of the remaining units were developed by the City of Hamilton under a variety of non-profit programs. Some were acquired or built directly by CHH. Buildings range in age from new construction to over 100 years old, with an average age of approximately 50 years.

In 2012, an Operating Agreement was signed between CHH and the City of Hamilton that defined the funding arrangement for CHH and the City. As a result, CHH is better able to manage operations on a portfolio basis and has more predictable and sustainable funding.

The Operating Agreement created a standard benchmarking system for all Housing programs. The funding formula is based on revenue and cost benchmarks that were established through a rigorous process across the province. Benchmarks are adjusted annually based on indices as set out by the province. Service level standards are clearly identified and operating reserves assist CHH to address year-over-year expense fluctuations.

Service Manager Role

All programs except the market portfolio are subject to program administration by the Service Manager (the City of Hamilton). The Service Manager is also responsible for payment of federal subsidies that are passed through the provincial government under federal/provincial funding agreements.