

CityHousing Hamilton Corporation

2018

BUDGET

Date: December 12, 2017

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 2018 Operating Budget (Report #17038)

RECOMMENDATION

- i) That Report #17038 be received for information; and
- ii) That the Board adopt and approve the CityHousing Hamilton 2018 Operating Budget



Tom Hunter,
Chief Executive Officer/Secretary

**CityHousing Hamilton Corporation
2018 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 \$59.7 million and there are 141.59 FTE in staffing.

Summarized 2018 Operating Budget data is listed below:

SUMMARY	2018	2017	2018 vs 2017	% change
	Budget	Budget	Budget Variance	
Total Revenue	\$ 59,705,165	\$ 72,314,153	-\$ 12,608,988	-17.44%
Total Expenditures	\$ 59,705,165	\$ 72,314,153	-\$ 12,608,988	-17.44%
Current Years Surplus/Deficit	\$ (0)	\$ (0)	\$ (0)	

2018 Financial Budget Overview

Revenues include \$20.7 M in subsidies and \$38.0 M in rent revenues. Other revenue of \$.953 M includes parking charges, laundry revenue, and rooftop rentals.

Operating expenses for 2018 are estimated at \$59.7 M, a decrease of (\$12.6 M) from the 2017 original budget, or (-17.44%). This difference is due to the tax exemption received in 2017 and in prior years was a flow through from operating subsidies.

The staff complement is budgeted at 141.59 Full Time Equivalentents in 2018. The mandate and staff responsibilities encompass the following areas:

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

Utilities, property taxes, mortgages and debenture costs represent over 39% (52%-2017) of total expenses. Staff salaries, maintenance materials and contracted services account for approximately 47% (37%-2017) total expenses. Approximately 14% (11%-2017) 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.

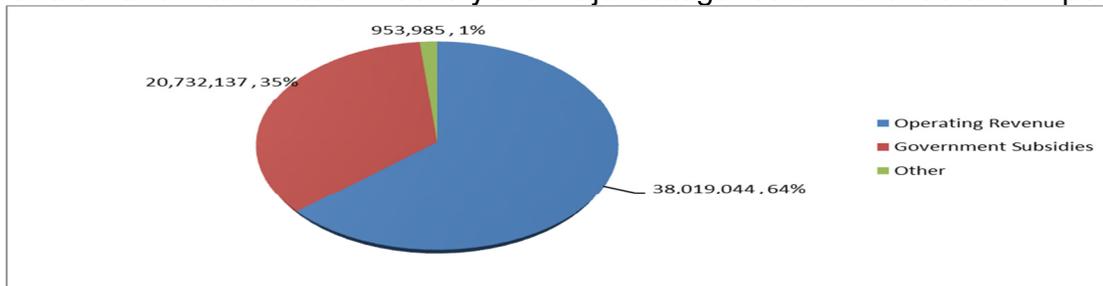


Chart 2

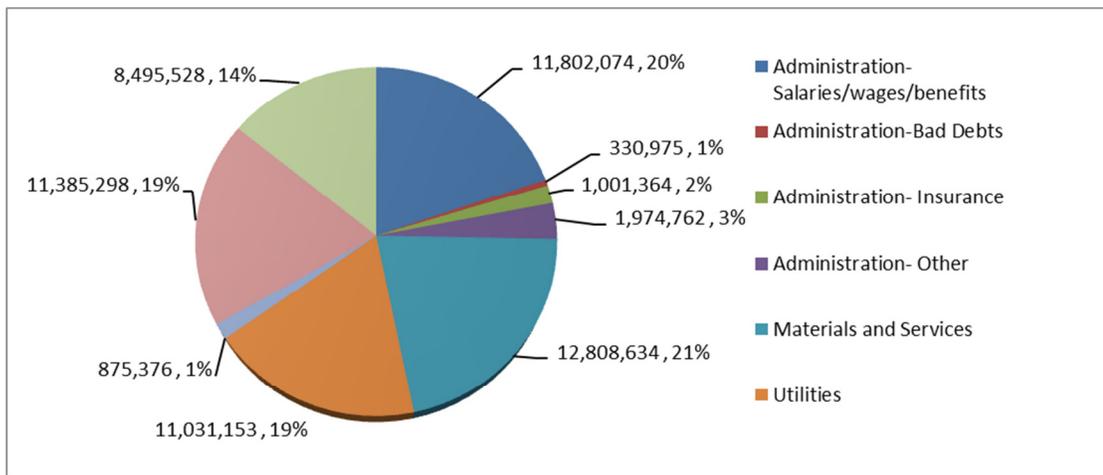


Table 1

Description	2018 Budget	2017 Budget	2018 vs 2017 Budget Variance	% change
REVENUE				
Operating Revenue	38,019,044	35,815,129	2,203,915	6.15%
Government Subsidies	20,732,137	35,545,137	(14,813,000)	-41.67%
Other	953,985	953,887	98	0.01%
TOTAL REVENUE	59,705,165	72,314,153	(12,608,987)	-17.44%
EXPENSES				
Administration- Salaries/wages/benefits	11,802,074	11,494,617	307,457	2.67%
Administration-Bad Debts	330,975	327,174	3,802	1.16%
Administration- Insurance	1,001,364	994,663	6,700	0.67%
Administration- Other	1,974,762	2,074,694	(99,931)	-4.82%
Materials and Services	12,808,634	11,795,348	1,013,287	8.59%
Utilities	11,031,153	10,997,716	33,437	0.30%
Property Taxes	875,376	14,798,240	(13,922,865)	-94.08%
Amortization and Mortgage Interest Allocated to Capital Services	11,385,298	11,455,811	(70,513)	-0.62%
Allocated to Capital Services	8,495,528	8,375,889	119,639	1.43%
TOTAL EXPENSES	59,705,165	72,314,153	(12,608,987)	-17.44%
NET SURPLUS/(DEFICIT)	0	(0)	(0)	(0)

Description	2018 Budget	2017 Revised Budget	2018 vs 2017 Budget Variance	% change
REVENUE				
Operating Revenue	38,019,044	35,815,129	2,203,915	6.15%
Government Subsidies	20,732,137	22,060,358	(1,328,221)	-6.02%
Other	953,985	953,887	98	0.01%
TOTAL REVENUE	59,705,165	58,829,374	875,792	1.49%
EXPENSES				
Administration- Salaries/wages/benefits	11,802,074	11,494,617	307,457	2.67%
Administration-Bad Debts	330,975	327,174	3,802	1.16%
Administration- Insurance	1,001,364	994,663	6,700	0.67%
Administration- Other	1,974,762	2,074,694	(99,931)	-4.82%
Materials and Services	12,808,634	12,486,048	322,587	2.58%
Utilities	11,031,153	10,997,716	33,437	0.30%
Property Taxes	875,376	622,761	252,615	40.56%
Amortization and Mortgage Interest	11,385,298	11,455,811	(70,513)	-0.62%
Allocated to Capital Services	8,495,528	8,375,890	119,638	1.43%
TOTAL EXPENSES	59,705,165	58,829,374	875,792	1.49%
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, keeping commercial revenues standard, reducing arrears, 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 (i.e. Service Manager) to achieve service targets, reporting requirements, funding, and portfolio-wide management practices and will continue to do so in 2018. In 2017, CHH received tax exemption status for all portfolios except the market portfolio.

REVENUES

Subsidies and Grants

Subsidies represent 34.74% of total revenue. The various subsidies include:

- Operating Subsidies
- Rent Subsidies
- Rent Supplements

Total subsidy has decreased (41.67%) from the 2017 budget. This decrease is mainly due CHH being tax exempted from 2017 and the Service Manager not needing to flow through taxes for subsidized portfolios.

Rents

Rental income represents 63.68% 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 2018 is 1.8%.

Market rents will increase by 1.8% in 2018 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 1.6% of all revenue.

Other Revenue

Other revenues are generated by parking charges, laundry cards, and rooftop antenna rentals. For 2018, other revenue is forecast as per the service manager's budget for 2018.

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 2018 budget incorporates a vacancy loss of \$2,362,512 which represents 4% (2017-4%-\$2,620,348) of total benchmarked gross rent potential.

EXPENSES

The 2018 Budget includes operating expenses of \$59.7 M, a decrease of (12.609 million) from the 2017 budget, or (17.44%). 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 \$11.39 million (19% of Budget).

Utilities

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

Utility costs are estimated at \$11.03 million (18% of budget), an increase of \$33,437 0.30% from 2017. Utility rates are on the rise.

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.

The savings from the building automation systems have been pro-rated for 2018 and reflected in the budget.

Municipal Realty Taxes

The 2018 Budget for property taxes is estimated at \$875,000 (2% of Budget- 20% in 2017). The estimate is based on actual experience for 2017, adjusted for the average assessment change, and increased by 3.00% (for every 0.5% change in tax rate decrease, CHH would have a savings of \$3,300 which would be allocated to Administration other budget line).

As property taxes are now exempt for subsidized portfolios, the budget only reflects what CHH has to pay on the market portfolios. The increase in realty tax would be a cost to CHH.

In 2018, there are two properties which will have a flow through from the Service Manager for \$181,262 and is one of the main reasons for the high variance; the other is lower taxes estimated in 2017.

Replacement and Reserve Allocations

Replacement and Reserve Allocations are estimated at \$8,495,528 (14% of budget). Replacement and Reserve allocation increased by 1.38% 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 \$11.80 million (20% of budget).

Salaries, wages and benefits have increased to a total of \$307,457 over the 2017 budget. This is due to:

Staffing cost capitalized	\$104,675
Changes to Maintenance Restructuring staff	(\$206,428)
Merit & Cost of Living increases	(\$205,704)

Materials and Services

Materials and Services costs have increased by \$1,013,287 from 2017. These costs represent 21% of total expenses and reflect the education portion of the tax exemption dollars of approximately \$852,870.

Other Administration

Other Administration has decreased by \$99,931 over prior year budget. Main cost drivers include:

- Resident Engagement - Allocation of budget funds to tenant engagement is in line with the directives from the Resident Engagement Report. Decrease in cost for Annual General Meetings
- Training/Professional Development – Budget created with a more combined effort on goals of CHH.
- Cost for Rent Free Accommodation - Cost of staffing with onsite presence.

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.

MULTI-YEAR BUSINESS PLAN AND BUDGETS

CityHousing Hamilton (CHH) is participating in the City's new multi-year budgeting initiative. This is not a requirement for CHH; nevertheless it will contribute to more comprehensive and complete financial documents. A Multi-Year Business Plan is complete (Appendix 1) and has been submitted to the City.

Operating budgets are still approved on an annual basis; however a three-year forecast in addition to the current budget year now accompanies the annual budget. At this point in time, the three-year forecast is for information purposes only.

It is expected that 2019 will be another challenging budget year. The minimum wage increasing from \$14 to \$15 per hour will create a budget pressure. More specifically, this change will increase Building Attendant wages and contractual rates. Other potential changes to Ontario's Employment Standards Act will impact CHH, but we will need to assess those changes and their impact on our operations.

It is expected that there will be a modest increase for Material & Supply costs as this has been aligned with the inflationary factors. In future years, it is anticipated that utility costs will be better managed through the implementation of energy retrofits (e.g. Building Automation Systems).

In 2019 and 2020, City cost allocations have been estimated to increase by inflation. Inflation factors have been taken at 2.4%, 1.8% and 1.7%. Rent increases reflect inflationary factors and other revenues have been kept the same.

Presented below is the 2018 Budget Summary and Three-Year Forecast for the 2019-2021 period.

Description	2017	2018	2019	2020	2021
	Budget	Budget	Budget	Budget	Budget
			2.4%	1.8%	1.7%
REVENUE					
Operating Revenue	35,815,129	38,019,044	38,931,501	39,802,188	40,648,745
Government Subsidies	22,060,358	20,732,137	21,229,708	21,611,843	21,979,244
Other	953,887	953,985	953,985	953,985	953,985
TOTAL REVENUE	58,829,374	59,705,165	61,115,194	62,368,015	63,581,974
EXPENSES					
Administration- Salaries/wages/benefits	11,494,617	11,802,074	12,117,189	12,335,298	12,544,998
Administration-Bad Debts	327,174	330,975	330,975	331,647	337,285
Administration- Insurance	994,663	1,001,364	1,025,397	1,043,854	1,061,599
Administration- Other	2,074,694	1,974,762	2,007,736	2,007,736	2,041,868
Materials and Services	12,486,048	12,808,634	13,116,041	13,352,130	13,579,116
Utilities	10,997,716	11,031,153	11,031,153	11,229,714	11,420,619
Property Taxes	622,761	875,376	901,637	917,867	933,470
Amortization and Mortgage Interest	11,455,811	11,385,298	11,885,643	12,293,758	12,656,454
Allocated to Capital Services	8,375,890	8,495,528	8,699,421	8,856,010	9,006,563
TOTAL EXPENSES	58,829,374	59,705,165	61,115,194	62,368,015	63,581,974
NET SURPLUS/(DEFICIT)	0	0	0	0	0