

**CityHousing Hamilton Corporation**

**2020**

**BUDGET**

**Date:** December 10, 2019

**Report to:** CityHousing Hamilton Corporation  
Board of Directors

**Submitted by:** Tom Hunter,  
Chief Executive Officer/  
Secretary

**Prepared by:** Rochelle Desouza,  
Chief Financial Officer

**Subject:** **CityHousing Hamilton Corporation**  
**Proposed 2020 Operating Budget (Report #19034)**

**RECOMMENDATION**

- i) That Report #19034 be received for information; and
- ii) That the Board adopt and approve the CityHousing Hamilton 2020 Operating Budget

A handwritten signature in blue ink that reads "Tom Hunter".

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Tom Hunter,  
Chief Executive Officer/Secretary

**CityHousing Hamilton Corporation  
2020 Budget**

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## INTRODUCTION

CityHousing Hamilton Corporation (CHH) is the largest provider of subsidized housing in the City of Hamilton, and one of the 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 \$1.03 billion. The annual operating budget is \$61.25 million and there are 140.54 FTE in staffing.

Summarized 2020 Operating Budget data is listed below:

| <b>SUMMARY</b>                | <b>2020</b>   | <b>2019</b>   | <b>2020 vs 2019</b>    | <b>% change</b> |
|-------------------------------|---------------|---------------|------------------------|-----------------|
|                               | <b>Budget</b> | <b>Budget</b> | <b>Budget Variance</b> |                 |
| Total Revenue                 | \$ 61,254,561 | \$ 60,068,885 | \$ 1,185,675           | 1.97%           |
| Total Expenditures            | \$ 61,254,561 | \$ 60,068,885 | \$ 1,185,676           | 1.97%           |
| Current Years Surplus/Deficit | \$ 0          | \$ (0)        | \$ (0)                 |                 |

### 2020 Financial Budget Overview

Revenues include \$20.5 M in subsidies and \$39.8 M in rent revenues. Other revenue of \$.95 M includes parking charges, laundry revenue, and rooftop rentals.

Operating expenses for 2020 are estimated at \$61.25 M, an increase of \$1.185 M from the 2019.

The staff complement is budgeted at 140.54 full-time equivalents in 2020. The mandate and staff responsibilities encompass the following areas:

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

Utilities, property taxes, mortgages and debenture costs represent over 38% (38%-2019) of total expenses. Staff salaries, maintenance materials and contracted services account for approximately 48% (48%-2019) total expenses. Approximately 14% (14%-2019) 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.

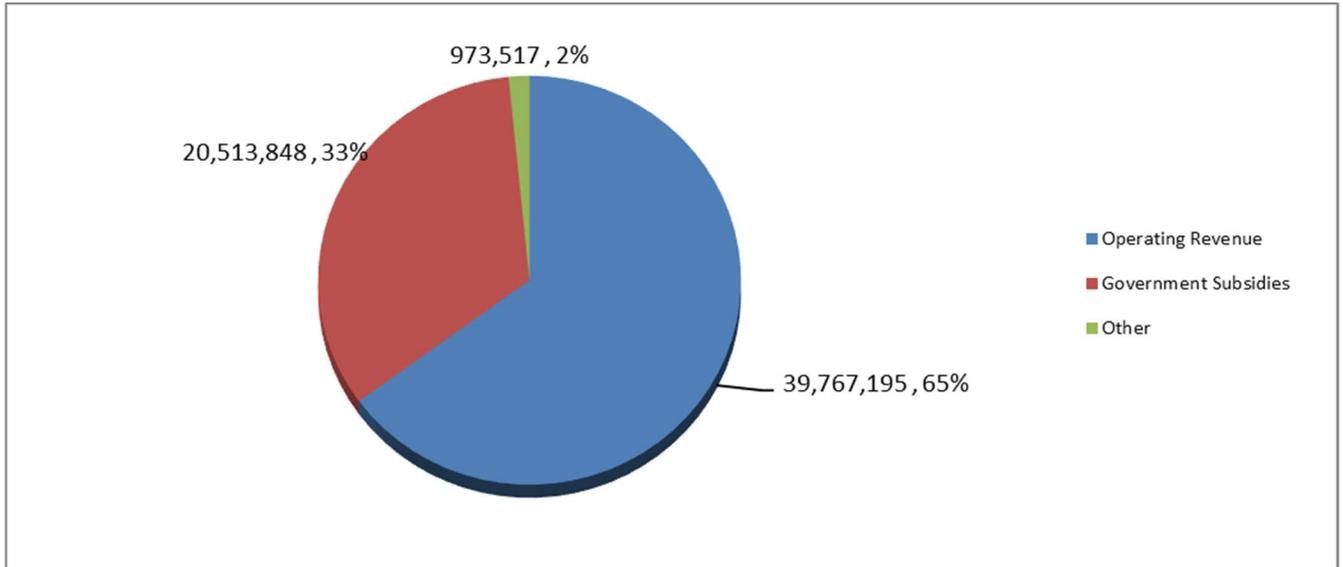


Chart 2

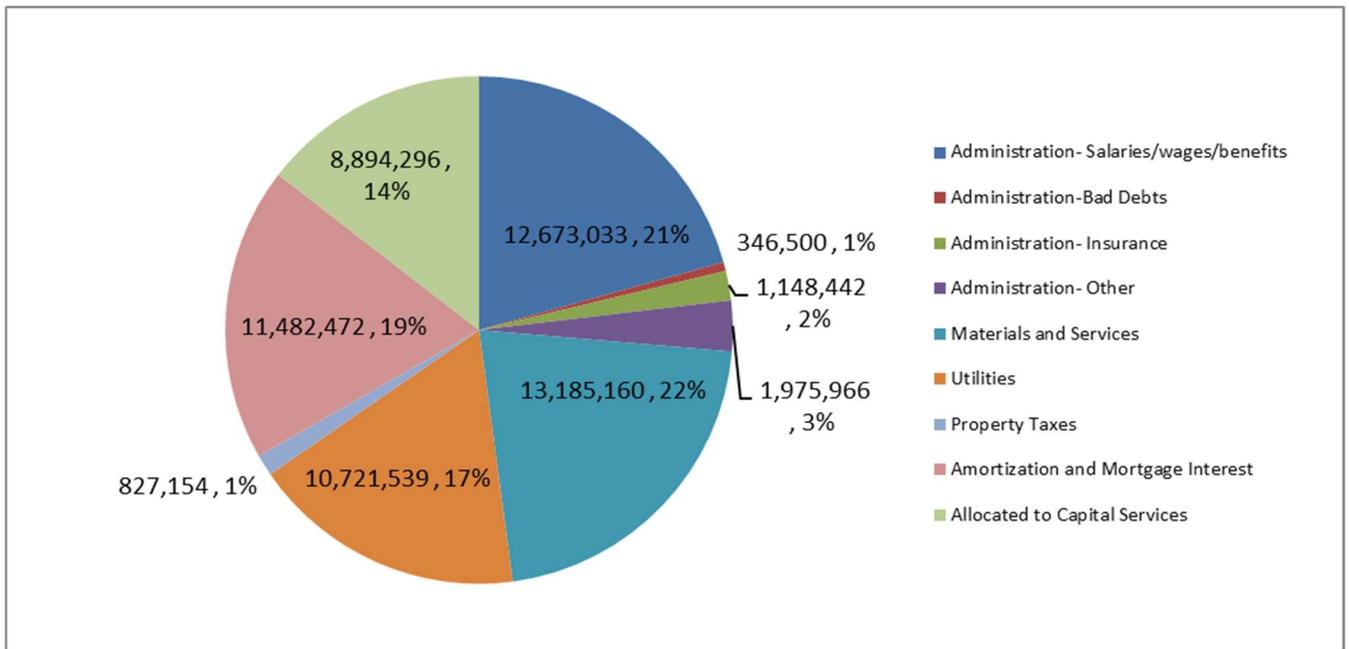


Table 1

| Description                             | 2020              | 2019              | 2020 vs 2019     | % change     |
|---|-------------------|-------------------|------------------|--------------|
|   | Budget            | Budget            | Budget Variance  |              |
| <b>REVENUE</b>                          |                   |                   |                  |              |
| Operating Revenue                       | 39,767,195        | 38,571,879        | 1,195,316        | 3.10%        |
| Government Subsidies                    | 20,513,848        | 20,543,026        | (29,177)         | -0.14%       |
| Other                                   | 973,517           | 953,980           | 19,537           | 2.05%        |
| <b>TOTAL REVENUE</b>                    | <b>61,254,561</b> | <b>60,068,885</b> | <b>1,185,675</b> | <b>1.97%</b> |
| <b>EXPENSES</b>                         |                   |                   |                  |              |
| Administration- Salaries/wages/benefits | 12,673,033        | 12,029,633        | 643,400          | 5.35%        |
| Administration-Bad Debts                | 346,500           | 338,479           | 8,021            | 2.37%        |
| Administration- Insurance               | 1,148,442         | 1,033,172         | 115,270          | 11.16%       |
| Administration- Other                   | 1,975,966         | 1,983,003         | (7,038)          | -0.35%       |
| Materials and Services                  | 13,185,160        | 13,170,921        | 14,239           | 0.11%        |
| Utilities                               | 10,721,539        | 10,583,384        | 138,154          | 1.31%        |
| Property Taxes                          | 827,154           | 874,453           | (47,300)         | -5.41%       |
| Amortization and Mortgage Interest      | 11,482,472        | 11,367,462        | 115,010          | 1.01%        |
| Allocated to Capital Services           | 8,894,296         | 8,688,377         | 205,919          | 2.37%        |
| <b>TOTAL EXPENSES</b>                   | <b>61,254,561</b> | <b>60,068,885</b> | <b>1,185,676</b> | <b>1.97%</b> |
| <b>NET SURPLUS/(DEFICIT)</b>            | <b>(0)</b>        | <b>(0)</b>        | <b>0</b>         | <b>0</b>     |

## 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 residents are supported. The budget also takes into consideration the internalization of Pest Management Services, Internalization of Maintenance 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 2020.

In 2017, CHH received tax exemption status for all portfolios except the market portfolio.

## **REVENUES**

### Subsidies and Grants

Subsidies represent 33% of total revenue. The various subsidies include:

- Operating Subsidies
- Rent Subsidies
- Rent Supplements

Total subsidy has decreased (0.14%) from the 2019 budget. This decrease is due to residents remaining housed within the portfolio at market due to a tough rental market in housing and the Service Manager requiring to fund fewer dollars.

### Rents

Rental income represents 63% 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 residents receiving assistance from the Ontario Disability Support Program or Ontario Works. Residents 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 2020 is 2.2%.

Market rents will increase by 2.2% in 2020 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, 211 King Street East, 360 King Street East, 89 and 95 King Street East. Commercial rental revenue accounts for 2% of all revenue.

#### Other Revenue

Other revenues are generated by parking charges, laundry cards, and rooftop antenna rentals. For 2020, other revenue is forecast as per the service manager's budget for 2020. Other revenue accounts for 2% of all revenue.

#### 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). The system will automatically calculate this vacancy loss. There is a manual calculation required for targets on certain properties.

The 2020 budget incorporates a vacancy loss of \$2,382,068 which represents 4% of total benchmarked gross rent potential. In 2019, 4% of vacancy loss represented \$2,373,737.

## **EXPENSES**

The 2020 Budget includes operating expenses of \$61.25 M, an increase of \$1.185 million from the 2019 budget. 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 \$11.48 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 \$10.72 million (18% of budget), an increase of \$138,154 or 1.31% from 2019. Utility rates are based on benchmarking factors and savings through automation.

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 and water conservation have been taken into consideration for 2020 and reflected in the budget.

### Municipal Realty Taxes

The 2020 Budget for property taxes is estimated at \$827,154 (1.35% of Budget). The estimate is based on actual experience for 2019, adjusted for the average assessment change, and increased by 4%.

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.

### Replacement and Reserve Allocations

Replacement and Reserve Allocations are estimated at \$8,894,296 (14% of budget). Replacement and Reserve allocation increased by 2.37% in subsidized portfolios. All Replacement and Reserve dollars are 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. The Budget for payroll costs is estimated at \$12.67 million (21% of budget).

Salaries, wages and benefits have increased to a total of \$643,400 over the 2019 budget. This is due to:

|                                  |           |
|----------------------------------|-----------|
| Addition of 3 new FTE's          | \$298,868 |
| IT Centralization change         | \$ 11,820 |
| Merit & Cost of Living increases | \$332,712 |

In 2019, CityHousing Hamilton, had Human Resources centralized with the City of Hamilton and in 2020, CityHousing Hamilton will have Information Technology centralized.

Materials and Services

Materials and Services costs have increased by \$14,239 from 2019 (22% of budget). These costs represent materials as per the benchmark of the Service Manager and reflect the education portion of the tax exemption dollars of approximately \$857,000 (\$857,000 2019). HVAC cost were reduced by \$298,868 due to internalization.

Other Administration

Other Administration has decreased by (\$7,038) over prior year budget. Main cost drivers include:

- Resident Engagement - Allocation of budget funds to resident engagement is in line with the directives from the Resident Engagement Report. Kept status quo for 2020.
- 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.

Seventy two percent of the properties (i.e. 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 44 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 (i.e. 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 multi-year budgeting initiative. This is not a requirement for CHH; nevertheless it will contribute to more comprehensive and complete financial documents.

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 there will be a modest increase for material and supply costs as the procurement tender will be issued to contractors in 2019. 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 2021, 2022 and 2023, City cost allocations have been estimated to increase by inflation. Inflation factors have been taken at 2.1%, 1.9% and 2%. Rent increases reflect inflationary factors and other revenues have been kept the same.

Presented below is the 2020 Budget Summary and Three-Year Forecast for the 2021-2023 period.

| Description                             | 2020<br>Proposed Budget | 2021<br>Budget    | 2022<br>Budget    | 2023<br>Budget    |
|---|-------------------------|-------------------|-------------------|-------------------|
|   |                         | 2.1%              | 1.9%              | 2%                |
| <b>REVENUE</b>                          |                         |                   |                   |                   |
| Operating Revenue                       | 39,767,195              | 40,722,634        | 41,589,013        | 42,417,422        |
| Government Subsidies                    | 20,513,848              | 20,944,639        | 21,342,587        | 21,769,439        |
| Other                                   | 973,517                 | 973,517           | 973,517           | 973,517           |
| <b>TOTAL REVENUE</b>                    | <b>61,254,561</b>       | <b>62,640,791</b> | <b>63,905,118</b> | <b>65,160,378</b> |
| <b>EXPENSES</b>                         |                         |                   |                   |                   |
| Administration- Salaries/wages/benefits | 12,673,033              | 12,926,494        | 13,185,024        | 13,448,724        |
| Administration-Bad Debts                | 346,500                 | 346,500           | 346,500           | 346,500           |
| Administration- Insurance               | 1,148,442               | 1,172,559         | 1,194,838         | 1,218,734         |
| Administration- Other                   | 1,975,966               | 2,017,461         | 2,055,793         | 2,096,909         |
| Materials and Services                  | 13,185,160              | 13,462,049        | 13,717,828        | 13,992,184        |
| Utilities                               | 10,721,539              | 10,807,311        | 10,899,173        | 10,986,366        |
| Property Taxes                          | 827,154                 | 844,524           | 861,414           | 878,643           |
| Amortization and Mortgage Interest      | 11,482,472              | 11,982,817        | 12,390,932        | 12,753,628        |
| Allocated to Capital Services           | 8,894,296               | 9,081,076         | 9,253,616         | 9,438,689         |
| <b>TOTAL EXPENSES</b>                   | <b>61,254,561</b>       | <b>62,640,790</b> | <b>63,905,117</b> | <b>65,160,377</b> |
| <b>NET SURPLUS/(DEFICIT)</b>            | <b>(0)</b>              | <b>0</b>          | <b>0</b>          | <b>0</b>          |