



2010 Operating Plan

BOARD OF DIRECTORS

To: Board of Directors
From: Finance Committee
Date: April 15, 2010

Report:TCHC:C2010-40

Page 1 of 4

PURPOSE:

To seek Board of Directors approval for the 2010 Operating Plan.

RECOMMENDATIONS:

It is recommended that the Board of Directors:

- (1) approve the 2010 Operating Plan as detailed in the attached Appendix "A" to give the CEO spending authority for 2010; and
- (2) authorize the appropriate Toronto Community Housing officials to take the necessary action to give effect to the recommendations.

FINANCE COMMITTEE COMMENTS:

At its meeting on April 14, 2010 the Finance Committee adopted the report and recommended it be forwarded to the Board of Directors for approval.

REASONS FOR RECOMMENDATIONS:

The Toronto Community Housing 2010 Operating Plan (Appendix A) has been prepared based on the financial targets and initiatives set in the business plan – Community Management Plan (CMP).

In the December 2009 meeting, the Board of Directors approved an interim 2010 Operating Plan ("Plan") to give the CEO spending authority for 2010, pending confirmation of funding level from the Service Manager (City of Toronto) and the approval of grants from Social Housing Repair and Renovation Program (SHRRP).

2010 Operating Plan

Report: TCHC:2010-40

2 of 4

Toronto Community Housing's subsidy is based on the funding formula in the Operating Agreement as follows:

- Property tax subsidy based on actual for buildings under the Social Housing Reform Act;
- Mortgage subsidy based on actual for buildings under the Social Housing Reform Act; and
- Residual funding based on previous year with inflation adjustment.

The Service Manager has confirmed the 2010 subsidies based on funding formula with adjustments as follows:

1. Increase 2010 subsidy by \$4.50 million to offset waste charges; and
2. Decrease 2010 subsidy by \$2.4 million as Toronto Community Housing's share of the City's budget constraint program.

The City also confirmed SHRRP phase 2 funding of \$50.6 million for capital repairs against Toronto Community Housing's submission of \$80 million. The Plan also included \$11.3 million of SHRRP renewable energy projects which have not been approved by the City and the Province. Toronto Community Housing will not proceed with these projects until funding is confirmed.

The attached 2010 Operating Plan sets out the total spending envelope for Toronto Community Housing including the "Buildings and Communities" Investment Plan. The Investment Plan highlights the priority areas of resource allocation for 2010 including funding from the SHRRP for 2009 (phase 1) and 2010 (phase 2). The Plan also includes the financial impact of 2010 Community Management Plan (CMP) initiatives.

The Plan in Appendix "A" also incorporated other changes to the December interim plan as a result of better information and adjustments after 2009 year end.

Risks and Implications

The approval of the Plan will allow the CEO to implement the Plan. However, the 2010 Plan also have some long term implications with respect to the funding of Toronto Community Housing. The introduction of waste charges and the unilateral reduction in "base" subsidy raised issues relating to how effective is the funding formula and the Operating Agreement protecting Toronto Community Housing subsidy revenue stream.

1. Waste charges / garbage levy

One of the components of the funding formula is the tax subsidy on a cost pass-through basis. This was meant to provide protection to Toronto Community Housing against increase in property taxes. Prior to the implementation of the

new garbage levy, waste charges were part of property taxes. So any property tax increase as a result of cost increases to waste and other municipal services were first paid and then recovered by Toronto Community Housing based on actual property tax payments at year end reconciliation. The formula therefore has an implicit assumption that waste charges would be covered on a cost pass-through basis regardless of how the City implements its waste collection program. By moving the waste charges from the property tax regime to the utility regime (water bill), Toronto Community Housing pays less property tax and receives a corresponding reduction in property tax subsidy which has no impact to budget due to the pass-through provision. But Toronto Community Housing is now inherited a new cost being the “net waste charges” in the water utility account.

The 2010 subsidy has a \$4.5 million provision to deal with the garbage levy while Toronto Community Housing is projecting a cost of \$7.7 million. It should be note that in 2009 Toronto Community Housing spent more than \$3.8 million in waste management in addition to waste pickup charges. Much of this spending was directed to improve the waste management system and process in buildings and to educate tenants and staff to recycle, a key objective of the City’s new waste collection and diversion strategy. Toronto Community Housing is therefore aggressive with the waste diversion objective and has directed significant resources to achieve this objective.

The \$7.7 million of new cost being 10% of Toronto Community Housing average operating cash flow is a very significant reduction to Toronto Community Housing. 50% of Toronto Community Housing’s revenue base is from subsidy and $\frac{3}{4}$ of the remaining 50% is from RGI rental revenue. It is impossible to find \$7.7 million of new revenue to cover this new cost.

Toronto Community Housing believes the original principle of the funding formula with respect to cost pass-through of all services included in property taxes must be maintained. If the City were to implement the new garbage levy within property tax regime, Toronto Community Housing would have full recovery. The move from a property tax regime to water utility, therefore, has unforeseen negative consequence to the funding of Toronto Community Housing.

2. Subsidy Reduction

2010 is the first time the City has made a unilateral reduction in Toronto Community Housing’s subsidy. The original intention of the Operating Agreement with a funding formula is to provide a stable subsidy operating revenue streams for Toronto Community Housing. Indeed, S&P, the rating agency, considered this as a positive to Toronto Community Housing’s credit. Between 2002 and 2009, the annual operating subsidy from the City grew at an average rate of 1.8%. This is below CPI inflation and lower wage inflation of 3% to 3.5% for the period.

2010 Operating Plan

Report: TCHC:2010-40

4 of 4

Even without stats of good repairs consideration, there is no reason to think Toronto Community Housing's subsidy growth is out of control and has to be constrained.

The Social Housing Reform Act has a prescribed funding formula for the funding of non-profit and co-op's by Service Managers. However, the Act provides the Service Managers with discretion to fund public housing, the housing stock downloaded from Ontario Housing Company to municipality. Since amalgamation of public housing and non-profit housing owned by the City as Toronto Community Housing, the corporation has taken the position to manage not by funding programs – public housing verses non-profit but by portfolio. A \$2.4 million reduction is equivalent to a 5% reduction of Toronto Community Housing's public housing base funding. While management will not be looking for service reductions in the public housing stock, which also happens to be the oldest and the neediest from a capital repairs perspective, this reduction will be a challenge.

The idea of the funding formula is to put all Toronto Community Housing stock under the same footing as the non-profit housing providers. As noted above, under the Social Housing Reform Act, the City cannot reduce the operating subsidies of the non-profit and co-operative providers. The recent reduction is a challenge to this principle.

Staff will continue to work with the City to resolve the above funding issues and report back to the Board on progress.

The 2010 Operating Budget approval will allow for the continual implementation of the CMP approved by the Board. The impacts of implementation of this budget will be communicated to staff, tenants and other stakeholders. Project specific communication plans are developed as initiatives are implemented.

Keiko Nakamura
Chief Executive Officer

Attachment: A: 2010 Operating Plan

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APPENDIX “A”

2010 OPERATING PLAN

- I. Operating Plan Overview
- II. Table A - 2010 Operation Cash Flow
Table B - 2010 Investment Plan

I. Operating Plan Overview

The 2010 Operating Plan (“Plan”) was developed based on the 2009 operating projected results and adjusted for inflation, the impact of harmonization of PST and GST for ½ the year, and implementation of CMP revenues and costs initiatives. The Operating Budget incorporates the continuing CMP initiatives from 2009 generating non-rental revenue and operating savings. The Buildings and Communities Investment Plan incorporates all the resources required to implement these CMP initiatives.

Operating Budget

The phase 1 development at Regent Park will have several buildings completed and going into operation during 2010 (161 units at 1 Oak, 30 Regent, Block 12 & 14 townhouses, and Rivertowne phase 2). These have been budgeted for the expected months of operation.

Revenue:

- Rent-Geared-to-Income rent projection is based on 2009 actuals with no increases. The new buildings add \$0.9 million of RGI rent. The rent budgets are shown as gross revenue before vacancy losses.
- Market rent gross revenue is projected based on 2009 actual plus an average increase of 2.1%, which is the 2010 rent increase guideline. The new buildings add \$0.3 million of market rent.
- The vacancy loss for RGI and market units are targeted to improve from 2009 actual of 2.28% and 5% to 1.5% and 3% respectively. The combined vacancy loss is budgeted to improve from the current 2.9% actual to a 1.8% target rate.
- Interest income is expected to be higher than the 2009 projection but significantly lower than the 2009 budget. This variance is largely due to the diminishing amount from the \$250 million bond proceeds available for investment with on-going development projects, as well as significantly lower interest rates.
- The 2010 budget for non-rental revenue of \$29.4 million includes revenue from commercial operations (parking and laundry), commercial space retail and cable fees. The budgeted increase includes higher revenue from parking, laundry, antenna and other commercial leases.
- The budgeted subsidy reflects funding agreements with the City’s Social Housing Unit (acting as Social Housing Reform Act Service Manager). Under

the Operating Agreement with the City, Mortgages, Property Taxes and Access Housing Connections rent supplement program are based on actual payments. The Operating Agreement allows for a net residual base subsidy increase at 1.8%, a provincial factor. However, the City has reduced Toronto Community Housing's funding formula amount by \$2.4 million after providing an increase of \$4.5 million for waste charges for a net increase of \$2.1 million.

- CMHC mortgages (50 year term) on 2 buildings will expire in 2010. Agreement has been reached with the City's Social Housing Unit to switch this from the funding under the subsidy formula in the Operating Agreement into the commercial rent supplement program. With funding from the City's commercial rent supplement program Toronto Community Housing will be able to continue to operate these buildings as Rent-Geared-to-Income units.
- Bad debt allowance is an estimate based on probabilities to collect the aged receivables. This estimate at \$2.7 million is based on 2009 year end aged receivables.
- ***The total revenue for the housing operation is about \$581.1 million. Subsidy that flows through to Access Housing Connection is another \$34.7 million for a total Toronto Community Housing revenue budget of about \$612.2 million.***

Expenditures

- Average manageable cost inflation factor is set at 2.6% over the 2009 budget. Divisions have to absorb all inflationary increases, including bargaining unit's wage increases, those already negotiated and those still to be negotiated, within this framework. The impact of PST/GST tax harmonization adds \$288k to the budget.
- The new buildings add \$0.5 million to the manageable costs.
- Other operating costs in the 2010 budget are based on 2009 projected results and estimated inflation plus other program initiatives.
- Utilities rate increases averaging about 0.4% above 2009 projected actual with hydro, and water increases at 1.5%, and 9% respectively, and gas projected to decrease by 5%. Harmonization of PST/GST tax for half of 2010 adds \$700k to this budget. The reduction of hydro and water consumption resulting from appliance and other program are offset by financing charges to support the investment in conservation measures (appliance program, energy retrofit program and building renewal program). These financing charges are

included in the utilities budget. The overall budget to budget increase is approximately 0.2%.

- The projected waste charge for 2010 is \$7.7 million for 2010. The City has provided \$4.5 million of subsidy to partially offset this new cost. Toronto Community Housing spent more than \$3.8 million in waste management including using community animators to promote recycling and waste separation in our communities. A recent study indicated that improving operation of compactors will have a significant impact to the number of bins required and would reduce waste pickup charges.
- The Operating Agreement provides for flow-through of mortgages and property taxes covered under the Social Housing Reform Act. About 13% of mortgages and 7% of taxes are for buildings not covered by the operating agreement. The lower mortgage budget reflects a lower interest rate at renewal.
- CMHC Mortgages (50 year term) on 2 buildings will expire in 2010. Agreement has been reached with the City's Social Housing Unit to switch it from the funding under the subsidy formula in the Operating Agreement into the commercial rent supplement program. There will be a small reduction of overall net subsidies for these buildings. Toronto Community Housing will be able to continue to operate these buildings as Rent-Geared-to-Income units.
- Operating budget for Access Housing Connections is as negotiated with the City. The bulk of the expenditure represents payments to private sector landlords under the various rent supplement programs as well as the City's Housing Allowance program.

As noted above and in Table "A", the total 2010 expenditure from housing operations, including Access Housing Connections, is about \$537.8 million.

Net Operating Cash Flow

With revenue of \$615.8 million and expenditure of \$537.8 million, the net operating cash flow is about \$78.0 million. This is about \$10 million lower than 2009 budget due mainly to lower interest income and waste pickup charges.

Buildings and Communities Investment Plan

The Investment section in Table "B" shows the \$259.3 million of investment in buildings and communities as follows:

The Building Capital Plan is the CMP commitment to maintain buildings in good repair. The detail of the 2010 Plan totaling \$213.9 million has the following major components:

- Building Capital Repair Program (\$66.5 million) - includes major capital repairs to building mechanical systems, roof, structures, etc.
- Component Replacement Program (\$5.54 million) – the capital provision as part of the implementation of an annual preventative maintenance program. Replacement of major components of mechanical systems (rather than total asset replacement) is an approach to extend the useful life of an asset. Contract management buildings are included in the Toronto Community Housing preventative maintenance program.
- The Unit Refurbishment Program (\$23.8 million) - a multi-year initiative to refurbish kitchen and bathroom of housing units and other in-suite renovations and pairs. The program target was \$100 million set in 2007. By the end of 2009, about \$110 million has been spent. Together with the planned spending in 2010 of more than \$42 million (bulk and move-out), total commitment to this program will exceed \$152 million. The program will be wound down in 2011.
- Community Based Capital Program (\$36.93 million) - provides capital to operating units for local initiatives including the Integrated Vacancy Management Program.
- Building Renewal Program (\$7 million) – the final year of a 4-year program totaling \$120 million to renew 19 developments partially funded by energy savings.
- Energy Programs (\$64.139 million) - in addition to the water and hydro conservation measures, the 2010 energy and utility conservation programs include:
 - re-commissioning and retrofit of existing building systems (optimization)
 - an energy information system with remote monitoring capability
 - renewable energy projects (solar photovoltaic, solar thermal, geothermal)
 - web based building automation system
 - multi-year Building Energy Retrofit Program (BERP)
 - Tower Renewal (a City led initiative).

Most of the initiatives will be self-funded by leveraging energy savings to pay for the capital costs. There are also incentives available from various sources such as Toronto Hydro, OPA, Enbridge, ecoEnergy, MEER, etc.

- Appliances Program (0.5 million) – a small provision for one-off replacement in case of emergency breakdown.
- Corporate Program (\$9.5 million) – includes funding for the established Green Plan, Green Education Program and Accessibility Plan. The Corporate Program also includes a general capital provision for renovations and repairs of Toronto Community Housing commercial real estate portfolio and commercial operations.

The detail summary of the various capital spending is attached as Table “B”.

Other Investments

- Corporate Other (\$10.63 million) – includes information technology, self-funded insurance reserve, provision for corporate restructure and other departmental capital provisions.
- 2010 CMP investment totaling \$4.98 million are directed to the three strategic focus areas – strengthening people, strengthening places and strengthening foundation.

Strengthening People	\$2,588,000
Promoting Successful Tenancies	
Supporting Economic Development	
Empowering Tenants	
Strengthening Places	1,445,000
Well-Maintained Buildings	
Valuable Community Spaces	
Community Safety	
Sound Investments in Real Estate Assets	
Strengthening Foundation	\$945,000
Improved Customer Service	
Healthy Workplaces	
Maintaining Financial Discipline	
Managing Risk and Effective Governance	
Better Communications	
Total CMP Investments	\$4,978,000

- Development Strategy Support (\$5.24 million) - In addition to \$2.3 million for the operation of the Development Division for the implementation of

CMP City Building initiatives, Development Strategy Support (\$5.24 million) has been expanded to include also the other development support costs for tenant relocations, community consultations on revitalization and other support services.

- Capital Reserve (\$8.59 million) – mandated reserve contributions for the current non-profit portfolio plus contributions for new buildings. To ensure redeveloped buildings will have adequate funding for future capital repair needs, all redeveloped buildings will contribute to capital reserves at \$800 per unit per year.
- Contribution to Development and Regeneration (\$12 million) – \$10 million contribution to the Regent Park Reserve and an additional \$2 million toward the build-out of the Regent Park’s Community Energy Plant.
- Corporate Contingency (\$4 million) - to manage unexpected costs such as emergencies, and overages due to tender results, change orders, and other corporate requirements.

The above planned 2010 investment is \$259.3 million as shown in Table “B”. This increase in investment from 2009 reflects the ongoing capital grants funding from governments allowing Toronto Community Housing to continue with historically high level of capital repairs in 2009, 2010, and 2011.

Funding of the Investment Plan

The sources of funding for this plan are shown in the Funding of Investment section of Table “B” and summarized as follows:

- Cash flow from operations of \$78.0 million
- 2010 Capital Grants from Provincial/City/SHRRP of \$94.78 million including phase 2 SHRRP funds as follows:

Government Funding - March 2010	2008	2009	2010	2011	Total
City \$75m	913,900	16,449,192	31,409,000	18,000,000	74,997,192
Provincial \$34.7m	23,540,868	11,159,132	0	0	34,700,000
SHRRP YR1		53,734,989	14,479,228		68,214,217
SHRRP YR2			43,596,200	7,000,000	50,596,200
SHRRP Renewable Initiative (estimated)			5,300,000	6,000,000	11,300,000
Total	32,679,868	81,343,313	94,784,428	31,000,000	239,807,609

- As noted above, there are incentives available for energy conservation programs from OPA and other agencies. About \$4.6 million of incentives is budgeted for 2010.
- Withdrawn from reserves and carry forward total \$28.5 million of which \$21.87 million represents projects to be carry forward to 2010. These projects will be completed in the first quarter of 2010.
- Financing of \$54.5 million is planned to fund the energy conservation programs supported by about \$6.8 million of saving when fully implemented. Debt services for the programs are incorporated into the utilities lines in Table "A".

The above totals \$260.4 million against \$259.3 million of investment for a net free cash flow of about \$1.1 million.

II. Tables A & B

Table A

TCHC Operations Revenue and Expenditures Statement

	2010 Board Interim Budget	Revised 2010 Budget (March 2010)
<u>REVENUE - Housing Operations</u>		
RGI Rent Revenue	220,369,000	220,369,000
Market Rental Revenue	56,294,000	56,294,000
Vacancy Loss	(4,994,000)	(4,994,000)
Interest Income	5,835,000	5,835,000
Non-Rental Revenue	28,329,000	29,362,000
Bad Debt Allowance	(2,700,000)	(2,700,000)
Total Housing Operations	303,133,000	304,166,000
Housing Program Subsidies	274,303,000	276,923,380
Total Housing Operations Revenue	577,436,000	581,089,380
Access Housing Connections Subsidies	34,743,000	34,743,000
TOTAL REVENUES	612,179,000	615,832,380
<u>EXPENDITURES - Housing Operations</u>		
<u>Manageable Cost</u>		
Building Operations & Maintenance	90,607,000	90,330,071
Tenancy Management	25,918,000	25,806,388
Community Support Services	10,248,000	9,524,164
Community Safety Services	11,888,000	12,024,630
Corporate Services	19,776,000	23,663,973
Total Manageable Cost	158,437,000	161,349,226
<u>Other Cost</u>		
Utilities	116,310,000	116,310,000
Waste pickup	7,690,000	7,690,000
Property Taxes	108,166,000	108,166,000
Mortgage & Loan payments	92,112,000	92,112,000
Corporate Debt Service	9,751,000	9,751,000
Commercial Operations	3,548,000	3,548,000
Insurance	4,138,000	4,138,000
Total Other Housing Operations Cost	341,715,000	341,715,000
Total Housing Operations Cost	500,152,000	503,064,226
<u>Access Housing Connections (AHC)</u>		
Wait List Management & Administration	5,278,000	5,278,000
Landlord Payments & Housing Allowance	29,465,000	29,465,000
Total Access Housing Connections	34,743,000	34,743,000
TOTAL OPERATING EXPENDITURES	534,895,000	537,807,226
NET OPERATING CASHFLOW	77,284,000	78,025,154

Table B
TCHC Operations Sources & Application of Funds

	2010 Board Interim Budget	Revised 2010 Budget
<u>INVESTMENT</u>		
Building Repair Capital Program (& contingency)	63,290,000	66,501,200
Components Replacement	4,000,000	5,540,000
Unit Refurbishment Program	59,950,000	23,796,000
Community Based Capital Program	16,500,000	36,935,000
Building Renewal Program	9,000,000	7,000,000
Energy Programs	69,110,000	64,129,000
Appliance Program	500,000	500,000
Corporate (Commercial, Green, Accessibility)	7,409,000	9,509,000
Total Building Capital Plan	229,759,000	213,910,200
Corporate Other (Insurance, IT, Severances...)	8,516,000	10,628,125
CMP Initiatives		
Strengthening People	1,850,000	2,588,000
Strengthening Places	1,675,000	1,445,000
Strengthening Foundation	900,000	945,000
Development Strategy Support	4,527,000	5,236,377
Reserve Contributions (Capital & Other)	8,589,000	8,589,000
Reserve Contributions (Regeneration & CES)	12,000,000	12,000,000
Corporate Contingency	4,000,000	4,000,000
TOTAL INVESTMENT	271,816,000	259,341,702
<u>FUNDING OF INVESTMENT</u>		
Cashflow from Operations	77,284,000	78,025,154
Grants (Provincial/City/2009 & 2010 Stimulus)	118,750,000	94,784,428
Energy Program Incentives	4,577,500	4,577,500
Reserves Withdrawn & Carryforward	18,500,000	28,470,488
3rd Party Financing: Capital & Energy Programs	54,532,500	54,532,500
TOTAL SOURCES OF FUNDS	273,644,000	260,390,070
NET CASHFLOW	1,828,000	1,048,368