

**REPORT TO HOSPITALS AND HOUSING COMMITTEE
MEETING OF WEDNESDAY, DECEMBER 06, 2023**

SUBJECT 2024 Portfolio Operating Budgets

ISSUE SUMMARY

To provide the Capital Region Housing Corporation (CRHC) Board a review of estimated operating revenues and expenditures for 2023, and to present the proposed operating budgets for 2024.

BACKGROUND

The CRHC currently consists of a total of 52 properties across six operating portfolios:

- 1) The Umbrella Operating Agreement (UOA) portfolio includes 38 buildings totalling 1,071 units across six municipalities. This agreement was initially signed in 2015 and was renewed in 2019 until December 31, 2024. The portfolio is made up of various operating agreements for Canada Mortgage and Housing Corporation (CMHC), BC Housing, and Homes BC properties under one agreement to achieve administrative efficiencies and cost effectiveness. The portfolio receives a fixed operating subsidy from BC Housing, which enables a combination of Rent-Geared-to-Income (RGI) and Affordable Rental Units (ARU). The proposed 2023 UOA Operating Budget is attached as Appendix A.
- 2) The No Operating Agreement (NOA) portfolio consists of five buildings totalling 123 units in three municipalities. The NOA was established as properties came to the end of their operating agreements and were no longer receiving a subsidy through BC Housing. Through the NOA, the CRHC can benefit from additional flexibility as the properties are no longer limited by an agreement. However, as the properties within the NOA receive no subsidy, they are dependent on rent revenues to ensure viability. The proposed 2023 NOA Operating Budget is attached as Appendix B.
- 3) The Regional Housing First Program (RHFP) portfolio consists of seven properties totalling 638 units in four municipalities. These buildings were funded through the RHFP and consist of 20% Shelter-Rate Units (SRU) and 80% ARU. The SRU are for individuals experiencing or at-imminent-risk of homelessness but can live independently. These units receive no subsidy and are therefore fully dependent on the rental revenues from the ARU to ensure ongoing viability. The proposed 2023 RHFP Operating Budget is attached as Appendix C.
- 4) The Investment in Housing Innovation (IHI) portfolio consists of one property totalling 73 units in Saanich. This building includes a partnership with the Independent Living Housing Society where a total of five units are provided to this society for use by their clients. The IHI portfolio receives no operating subsidy and therefore is dependent on tenant rent contributions to support operations. The proposed 2023 IHI Operating Budget is attached as Appendix D.
- 5) The Community Housing Fund (CHF) portfolio consists of two buildings totalling 102 units in Langford and Victoria. This portfolio has a BC Housing prescribed rental structure that includes 20% RGI Deep Subsidy, 50% RGI and 30% Affordable Market. To support the RGI

Deep Subsidy and RGI units, this portfolio receives an operating subsidy and relies on the tenant rent revenues from the 30% Affordable Market to help support overall building viability. The proposed 2023 CHF Operating Budget is attached as Appendix E.

- 6) The Independent Living BC (ILBC) portfolio consists of one building containing 21 units in the City of Victoria. This building is an accredited Assisted Living building for seniors and persons with disabilities and is operated by a third-party in partnership with BC Housing and Island Health. This building receives a subsidy and is dependent on the third-party operator to provide hospitality services and for Island Health to manage tenant intake and to provide the health care services as may be required. The proposed 2023 ILBC Operating Budget is attached as Appendix F.

Each separate portfolio budget includes the 2023 estimated surplus/deficit, the proposed 2024 budget totals and forecasts for years 2025 through 2028. As these budgets enable expenditures for 2024, they are required to be approved by the CRHC Board by December 31, 2023.

ALTERNATIVES

Alternative 1

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

1. That the 2024 Operating Budget for the Umbrella Operating Agreement be approved;
2. That the 2024 Operating Budget for the No Operating Agreement be approved;
3. That the 2024 Operating Budget for the Regional Housing First Program Agreement be approved;
4. That the 2024 Operating Budget for the Investment in Housing Innovation be approved;
5. That the 2024 Operating Budget for the Community Housing Fund (CHF) be approved;
6. That the 2024 Operating Budget for the Independent Living BC Agreement be approved; and
7. That any 2023 operating surplus/(deficits) to be transferred to/(from) the individual Portfolio Stabilization Reserves be approved.

Alternative 2

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

1. That the 2024 Operating Budget for the Umbrella Operating Agreement be approved as amended;
2. That the 2024 Operating Budget for the No Operating Agreement be approved as amended;
3. That the 2024 Operating Budget for the Regional Housing First Program Agreement be approved as amended;
4. That the 2024 Operating Budget for the Investment in Housing Innovation be approved as amended;
5. That the 2024 Operating Budget for the Community Housing Fund (CHF) be approved as amended;
6. That the 2024 Operating Budget for the Independent Living BC Agreement be approved as amended; and
7. That any 2023 operating surplus/(deficits) to be transferred to/(from) the individual Portfolio Stabilization Reserves be approved as amended.

IMPLICATIONS

Overall Implications

Staffing

Caretaker salaries and administrative overhead are allocated to properties based on hourly staffing requirements. The 2024 caretaker budget line has an increase due to forecasted salary rate increases and the creation of a Unit Turnover Team through auxiliary positions. Though this will result in increased costs, it is necessary to shorten the average days vacant, which will increase revenues. Overall, the creation of the Unit Turnover Team is expected to be net positive.

Rental Rates

The BC Government announcement that 3.5% rent increases are permitted effective January 1, 2024, budgets have been prepared assuming this revenue increase, starting as early in the new year as is legally permissible. It should be noted that this is below the actual increase in costs the CRHC is forecasting in 2024. This is further compounded by the rental increase freeze in 2020 and 2021 as well as the 2% increase permitted in 2022. These constraints have not enabled the CRHC to increase revenue to align with increases in cost from 2020 through into 2024.

Insurance Premiums

CRHC procures its insurance from Marsh Canada through a partnership with British Columbia Non-Profit Housing Association (BCNPHA). This approach enables CRHC to access a special insurance pool of non-profit housing societies which offers preferred insurance rates. In 2019/20 staff undertook a market scan exploring the opportunity for CRHC to access more competitive rates with another insurer and the determination was made that remaining with Marsh was considerably more affordable than market alternatives. Staff will work to undertake a new market scan in 2024 to ensure that working with Marsh continues to be the most economical option for the CRHC. This is especially important as insurance premium increases alone account for approximately 13% of the total CRHC expenditure increase across all portfolios.

Mortgage Renewals

The CRHC will see four properties with mortgage renewals in 2024, as shown in Table 1.

Table 1: 2024 Mortgage Renewals

Rental Property	Interest Rate	Renewal Date	Maturity Date
Carillon Place	3.220%	June 1, 2024	July 1, 2033
Tillicum Station	3.265%	July 1, 2024	July 1, 2037
Parry Place	3.480%	May 1, 2024	May 1, 2043
Village on the Green	2.250%	October 1, 2024	October 1, 2039

It is highly likely that these four properties will be renewed at higher rates given current benchmark rates. However, as Carillon and Tillicum are in the UOA, BC Housing will adjust the subsidy amount commensurate to the debt cost increase. Parry Place is subsidized through BC Housing through ILBC2 and will also see the subsidy amount increase to absorb the cost of the debt. Village on the Green has been identified as a property with significant development potential. If a development project is approved at this site, the mortgage would be repaid upon renewal. The estimated principal balance at the renewal date is \$1.5 million (M), and this cost is considered in the capital budget.

UOA Portfolio

2023 Outcomes

The amended 2023 UOA budget estimated a negative operating result of \$152 thousand (K) with the budget amendment being the result of ratification of the 2022-2024 Canadian Union of Public Employees (CUPE) Collective Agreement and a reconciliation of costs associated with an office expansion to accommodate planned growth. In 2023 staff are forecasting a deficit of \$54K, which is \$98K less than approved. In 2023, the CRHC experienced revenues that were slightly higher than budgeted, which helped to offset the higher expenditures that staff has anticipated. The higher than budgeted expenditure was primarily due to the increased cleaning costs associated with engaging contracted services to backfill staff vacancies and respond to an increasing demand for this service. The 2023 operating deficit will be reconciled through a transfer from the UOA Stabilization Reserve. See Appendix A for detailed variance explanations.

Table 2: UOA Summary 2023 Estimated Revenue/Expenditures & 2024 Proposed Budget

Umbrella Operating Agreement (Appendix A)			
	2023 Budget	2023 Estimates	2024 Proposed
Total Revenue	\$13,030,302	\$13,273,367	\$13,378,911
Total Expenditures	(\$13,182,306)	(\$13,326,883)	(\$13,485,092)
Operating Surplus/(Deficit)	(\$152,004)	(\$53,516)	(\$106,181)

2024 Budget Drivers

The 2024 UOA budget will see a small decline in subsidy revenue which corresponds to a decline in mortgage payments as mortgages will mature at a total of five UOA properties. Please see Appendix G for an overview of the upcoming mortgage expiries. Increased staffing costs, insurance premiums, contracted service cost increases, and costs for utilities including water, gas and electricity are placing considerable upward cost pressures on the UOA. The transfer to the replacement reserve, budgeted at \$2.2M in 2024, is aligned to budgeted expenditures of the 5-year Routine Capital Plan and is consistent with the requirements of the UOA. Staff are proposing a 2024 budget showing a deficit of \$106K which will be funded by the UOA Portfolio Stabilization Reserve. The UOA is projected to return a surplus in years 2025 to 2028 as debt costs will decrease as mortgages mature.

UOA Negotiation

The current UOA was entered into in 2019 and is valid through to December 31, 2024. Staff will be working closely with BC Housing to negotiate a renewed and updated UOA with the intention of enabling strategic redevelopment of CRHC properties and preserving the health of the properties contained within the UOA.

NOA Portfolio

2023 Outcomes

The amended 2023 NOA budget estimated an operating surplus of \$30K. Staff are forecasting a 2023 surplus of \$61K, which results in an anticipated positive variance of \$31K. The surplus is driven by revenues 2.4% higher than budgeted, and expenditures below budget in areas such as caretaker costs and hydro. The estimated surplus of \$61K will be transferred into the NOA Stabilization Reserve.

Table 3: NOA Summary 2023 Estimated Revenue/Expenditures & 2024 Proposed Budget

No Operating Agreement (Appendix B)			
	2023 Budget	2023 Estimates	2024 Proposed
Total Revenue	\$1,684,250	\$1,724,390	\$1,761,248
Total Expenditures	(\$1,653,452)	(\$1,662,899)	(\$1,730,941)
Operating Surplus/(Deficit)	\$30,798	\$61,491	\$30,307

2024 Budget Drivers

The main cost pressures impacting the NOA Operating budget are caretaker costs, garbage contract costs, maintenance, and water costs. Caretaker cost increases are driven by reallocation across portfolios and the creation of a Unit Turnover Team. Increased maintenance is anticipated in the portfolio and cost estimates are based on detailed diligence and scheduling.

Replacement Reserve Contribution

The funding strategy ensures there is sufficient revenue available for the proposed 2024-2028 rolling NOA Routine Updated Capital Plan. For 2023, a replacement reserve contribution of \$173/month per unit (or \$255K annual contribution) will be transferred from the NOA operating budgets to the Replacement Reserve to fund proposed works in the Routine Capital Plan.

RHFP Portfolio

2023 Outcomes

The amended 2023 RHFP budget estimated an operating surplus of \$34K and staff are forecasting a 2023 surplus of \$330K, which results in an anticipated positive variance from plan of \$297K. The surplus is driven primarily by caretaker vacancies (\$196K), and lower than anticipated mortgage costs of (\$298K) at Prosser and Michigan A. When the Prosser mortgage was secured in June of 2023, the 10-year term fixed rate was 0.99% lower than forecast, which resulted in approximately \$66K in debt servicing savings annually. The delay of the Michigan redevelopment has also resulted in a slightly lower revenue and slightly lower expenditure than initially budgeted. The estimated surplus of \$330K will be transferred into the RHFP Stabilization Reserve.

Table 4: RHFP Summary 2021 Estimated Revenue/Expenditures & 2022 Proposed Budget

Regional Housing First Program (Appendix C)			
	2023 Budget	2023 Estimates	2024 Proposed
Total Revenue	\$9,217,057	\$9,030,482	\$9,898,206
Total Expenditures	(\$9,183,431)	(\$8,700,312)	(\$9,986,409)
Operating Surplus/(Deficit)	\$33,626	\$330,170	(\$88,203)

2024 Budget Drivers

Key budget drivers going into 2024 include projected increases in caretaker costs, garbage contract costs, insurance, maintenance, and water costs, which account for approximately 44% of the overall budget increase 2023 to 2024. It is notable that many of the individual line-item increases are driven by the annualization of Prosser, which opened in Q2 2023, and the addition of Michigan Building A, which is expected to open in Q2/Q3 2024.

From a performance perspective, the RHFP portfolio is expected to end 2024 in a deficit position of \$88K. This is primarily driven by the anticipated rent-up costs of the Michigan Building A property and a higher than anticipated rent loss for Hockley and Millstream due to vacancies and turnovers. Staff continue to monitor and forecast weekly and monthly through rent up periods of new buildings and have included costs in both the capital and operating budgets that take into account cost experience to date. With analysis and action taken to optimize the rent up process, costs reflected in plan are considered reasonable as new buildings are put into use.

To support increased performance of the RHFP properties, staff will be prioritizing efforts to turn over units more quickly at Hockley and Millstream and will be moving forward with auxiliary cleaning positions in addition to the creation of a Unit Turnover Team that consists of a lead hand, a carpenter and two painters. It is expected that these steps will help to address the rent loss occurring at these properties, which will help to increase revenue and reduce the forecasted deficit. Staff will continue to report out on performance of the RHFP portfolio through the CRHC quarterly operational updates.

IHI Portfolio

2023 Outcomes

Staff are anticipating a surplus of \$74K, which is \$23K less than budgeted. This is due to slightly lower than anticipated rent revenue and slightly higher costs for maintenance items.

Table 5: IHI Summary 2023 Estimated Revenue/Expenditures & 2024 Proposed Budget

Investment In Housing Innovation Agreement (Appendix D)			
	2023 Budget	2023 Estimates	2024 Proposed
Total Revenue	\$857,570	\$833,010	\$847,993
Total Expenditures	(\$760,553)	(\$758,692)	(\$793,641)
Operating Surplus/(Deficit)	\$97,017	\$74,318	\$54,352

2024 Budget Drivers

The proposed 2024 Operating budget expenditures of \$794K increases \$43K from the 2023. This increase in budget is to absorb additional costs associated with changes as to how the Caretaker staff are allocated across the four operational portfolios. Additionally, the increased costs for the Unit Turnover Team impact the Caretaker line on this portfolio. This portfolio is expected to end 2024 with a \$54K surplus.

CHF Portfolio

2023 Outcomes

Staff are anticipating a surplus of \$19K in 2023 due to three distinct factors. First, the initial inclusion of two months of operation at the Michigan redevelopment (Building B) in 2023. As this project was delayed into 2024 both the anticipated revenue and expenditure will end 2023 below the CRHC Board-approved budget by \$147K respectively. Second, the development delay resulted in a reduction in subsidy from BC Housing as the subsidy for Michigan Building B will not begin until construction is complete, and the takeout mortgage is secured. Third and finally, the City of Langford registered a covenant on the 2782 Spencer Road property that restricts the ability of the CRHC to charge for parking, which resulted in a drop of \$22K in revenue. This was done as the development was advanced through the development process prior to the CRHC taking possession.

Table 6: CHF Summary 2023 Estimated Revenue/Expenditures & 2024 Proposed Budget

Community Housing Fund Agreement (Appendix E)			
	2023 Budget	2023 Estimates	2024 Proposed
Total Revenue	\$1,347,674	\$1,001,176	\$1,699,528
Total Expenditures	(\$1,347,674)	(\$981,955)	(\$1,699,528)
Operating Surplus/(Deficit)	-	19,221	-

2024 Budget Drivers

The budget for the CHF portfolio is proposed to increase by \$352K or 26%. This is driven primarily by the opening of Michigan Square Building B as well as increases due to Caretaker allocations and other staffing impacts. As the CHF is a subsidized portfolio with budgets approved annually by BC Housing, the revenues are expected to increase commensurate with the increase in expenditures. At the end of 2024, the CHF Portfolio is expected to end in a balanced position.

ILBC2 Portfolio

Parry Place is under the ILBC2 operating program with BC Housing. It has a five-year fixed budget that was renewed for 2020-2024, with an allowance for an increase in annual budget expense based on the Consumer Price Index (CPI), excluding the mortgage. The operating agreement has been amended to allow for a one-year budget cycle starting January 1, 2024.

2023 Outcomes

The BC Housing mandated 2023 ILBC2 budget estimated an operational surplus of \$42K. Staff are forecasting a 2023 deficit of \$202K for an anticipated expenditure variance of \$186K. The deficit is due to a BC Housing adjustment to the subsidy amount, which has been offset to a degree through a Tenant Rent Contribution that was higher than budgeted. Through 2023, expenditures are forecast to be \$186K higher than budgeted due to the ongoing contract with Bayshore Home Health to ensure overnight first aid services are available to residents and actual contract costs in the provision of hospitality services. Additionally, a number of elevator outages through 2023 have resulted in higher than budgeted maintenance costs.

Table 7: ILBC2 Summary 2023 Estimated Revenue/Expenditures & 2024 Proposed Budget

Independent Living BC 2 Agreement (Appendix F)			
	2023 Mandated	2023 Estimates	2024 Proposed
Total Revenue	\$729,853	\$671,764	\$927,858
Total Expenditures	(\$688,121)	(\$873,941)	(\$927,858)
Operating Surplus/(Deficit)	\$41,732	(\$202,177)	-

2024 Budget Drivers

Due to pressures on the health system and the care needs of existing residents at Parry Place, Island Health is no longer in the building providing services overnight. This has required CRHC to hire Bayshore Home Health to provide overnight first aid as required of Owners under the *Community Care and Assisted Living Act*. This additional cost as well as the considerable increases in several budget lines that include mortgage payments, hospitality services, and maintenance all increased the need for an increased subsidy from BC Housing. Given we have moved to a one-year budget cycle, staff therefore have submitted a 2024 budget to BC Housing that expects the building to end 2024 in a balanced position.

Portfolio Stabilization Reserves

Based on the 2023 estimated surpluses being contributed to the applicable portfolio stabilization reserves and capital development and renewal projects; Table 8 summarizes the estimated 2023 year end reserve balances.

Table 8: Summary of Portfolio Stabilization Reserves

Portfolio Stabilization Reserve Balances	2023 Beginning Balance	2023 Surplus/(Deficit)	2023 Approved Transfers from/(to)	2023 Ending Balance
UOA	\$3,410,606	(\$53,516)	\$53,516	\$3,357,090
NOA	\$959,903	\$61,491	(\$61,491)	\$1,021,394
RHFP	\$265,650	\$330,170	(\$330,170)	\$595,820
IHI	\$389,301	\$74,318	(\$74,318)	\$463,619
CHF	\$5,477	\$19,221	(\$19,221)	\$24,698
ILBC2 Agreement	(\$107,961)	(\$202,177)	\$202,177	(\$310,138)

Portfolio stabilization reserves are used to fund cyclical maintenance as well as one-time unexpected pressures.

CONCLUSION

Several factors continue to place upward pressure on costs across the portfolios. These include increased staffing, ongoing inflationary pressures from contracted services and additional costs associated with operations. These are compounded by constraints on revenue due to operating agreement requirements and/or provincial legislation. Staff will be working through 2024 to continue moving the corporation forward and delivering new units while looking to mitigate risk.

RECOMMENDATION

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

1. That the 2024 Operating Budget for the Umbrella Operating Agreement be approved;
2. That the 2024 Operating Budget for the No Operating Agreement be approved;
3. That the 2024 Operating Budget for the Regional Housing First Program Agreement be approved;
4. That the 2024 Operating Budget for the Investment in Housing Innovation be approved;
5. That the 2024 Operating Budget for the Community Housing Fund (CHF) be approved;
6. That the 2024 Operating Budget for the Independent Living BC Agreement be approved; and
7. That any 2023 operating surplus/(deficits) to be transferred to/(from) the individual Portfolio Stabilization Reserves be approved.

Submitted by:	Don Elliott, MUP, Senior Manager, Regional Housing
Concurrence:	Kevin Lorette, P. Eng., MBA, General Manager, Planning & Protective Services
Concurrence:	Rianna Lachance, BCom, CPA, CA, Acting Chief Financial Officer
Concurrence:	Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer

ATTACHMENTS:

Appendix A – UOA Operating Budget Summary
Appendix B – NOA Operating Budget Summary
Appendix C – RHFP Operating Budget Summary
Appendix D – IHI Operating Budget Summary
Appendix E – CHF Operating Budget Summary
Appendix F – ILBC2 Operating Budget Summary
Appendix G – Upcoming Mortgage Expiries