

**REPORT TO CAPITAL REGION HOUSING CORPORATION BOARD
MEETING OF WEDNESDAY, DECEMBER 12, 2018**

SUBJECT 2019 Portfolio Operating Budgets

ISSUE

To provide the Capital Region Housing Corporation (CRHC) Board a review of estimated operating revenues and expenditures for 2018, and to present the proposed operating budgets for 2019.

BACKGROUND

In 2015, the Umbrella Operating Agreement (UOA) was signed with the BC Housing and Management Commission (BCHMC) and is in effect until December 31, 2019. Staff have prepared an operating budget for the UOA portfolio, covering 42 of CRHC's 46 properties. Separate budgets have also been prepared for the remaining portfolios: Independent Living BC (ILBC), No Operating Agreement (NOA) and the Regional Housing First Program Agreement (RHFP). A summary can be found in Table 1 and detailed budgets can be found in Appendices A-D.

Table 1: Summarized 2018 estimated revenue/expenditures and the 2019 proposed budgets.

Umbrella Operating Agreement (Appendix A)			
	2018 Budget	2018 Estimates	2019 Proposed
Total Revenue	13,947,820	14,115,755	14,127,080
Total Expenditures	12,664,480	12,512,289	12,514,470
Operating Surplus/(Deficit)	1,283,340	1,603,466	1,612,610
Independent Living BC Agreement (Appendix B)			
	2018 Budget	2018 Estimates	2019 Mandated
Total Revenue	640,610	606,557	656,890
Total Expenditures	640,610	646,039	656,890
Operating Surplus/(Deficit)	0	(39,482)	0
No Operating Agreement (Appendix C)			
	2018 Budget	2018 Estimates	2019 Proposed
Total Revenue	688,492	693,045	700,920
Total Expenditures	679,018	683,973	666,140
Operating Surplus/(Deficit)	9,474	9,072	34,780
Regional Housing First Program Agreement (Appendix D)			
	2018 Budget	2018 Estimates	2019 Proposed
Total Revenue	0	0	2,181,380
Total Expenditures	0	0	2,169,220
Operating Surplus/(Deficit)	0	0	12,160

Table 2: Combined totals of the CRHC portfolio

CRHC Portfolio			
	2018 Budget	2018 Estimates	2019 Proposed
Total Revenue	15,276,922	15,415,357	17,666,270
Total Expenditures	13,984,108	13,842,301	16,006,720
Operating Surplus/(Deficit)	1,292,814	1,573,056	1,659,550

ALTERNATIVES

Alternative 1:

- 1) That the Capital Region Housing Corporation 2019 Operating Budgets for the Umbrella Operating Agreement, Independent Living BC Agreement, No Operating Agreement and the Regional Housing First Program Agreement be approved; and
- 2) That any 2018 operating surplus/(deficits) to be transferred to/(from) the appropriate Portfolio Stabilization Reserves be authorized.

Alternative 2:

That staff be directed to amend the budget submission and report back to the Board.

IMPLICATIONS

UOA

The approved 2018 UOA Budget estimated an operating surplus of \$1,283,340. CRHC is forecasting a \$1,603,466 surplus. The difference of \$320,126 or 24.9% is due to an increase in tenant rent revenue and a decrease in property taxes, landscape maintenance and unused contingency. Staff were able to maintain the average unit vacancy at 34 days.

Under the UOA, all operating surplus funds are retained by CRHC. With the surplus, CRHC must first remedy any operating deficit from a previous year. Then CRHC may make other payments out of the surplus in order of priority as follows: contributions to the capital replacement reserve fund as required under the capital plan, costs relating directly to a project; or in any other way the CRHC chooses to advance the management and development of affordable housing.

Staff will be recommending as part of the 2019 Routine Capital Plan Update, that a 2019 transfer of \$1,056,980 be made to the capital replacement reserve fund. As a result, staff are recommending that the 2018 operating surplus of \$1,603,466 be transferred to the UOA Stabilization Reserve.

Due to a proposed 1.3% increase in revenue and a -1.2% decrease in expenditures, the proposed 2019 UOA operating surplus will be a year over year increase of \$329,270 or 25.7% for a total of \$1,612,610.

ILBC

Parry Place is under the ILBC operating program with BCHMC. It has five year fixed budget that is renewing for 2019-2023, with an allowance for an increase in annual budget expense based on the Consumer Price Index, excluding the mortgage. The forecasted 2018 deficit is (\$39,482). The deficit is due to the ongoing high vacancy rate. The ILBC agreement requires Island Health to be responsible for the placement of tenants. Through active consultation with BCHMC, Island Health and Beacon Community Services, CRHC continues to work to decrease the vacancy rate at Parry Place. Staff are prioritizing an evaluation of Parry Place and the ILBC program in 2018-2019.

The proposed increase for the 2019 Parry Place operating budget is \$16,280 or 2.5%.

NOA

The NOA operating cash flow model is based on Village on the Green's annual operating surplus offsetting Vergo's annual operating deficit. This model allowed Vergo to increase its takeout mortgage so \$1M capital surplus could be contributed to the ongoing new development.

The proposed 2019 NOA operating surplus of \$34,780, is an increase of \$25,306 over the 2018 budgeted surplus of \$9,474 due to a projected 1.8% increase in revenue and -1.9% decrease in expenditures.

Regional Housing First Program (RHFP) Portfolio

In February 2019, CRHC will acquire a 60yr lease for CRD's first RHFP property. The site consists of 2 apartment buildings with 132 rental units. The proposed 2019 operating budget is based on 11 months of rental and parking revenue and 11 or 12 months of operating expenses (depending on budget line item) due to building start-up costs. CRHC staff will review the 2019 cash flow at mid-year to address any budgetary issues that can arise for a new building in the first year of operations.

Portfolio Stabilization Reserves

Based on the 2018 estimated surpluses being contributed to the applicable Portfolio Stabilization Reserves and the one-time 2018 UOA transfers, following are the estimated 2018 year end reserve balances:

Portfolio Stabilization Reserve Balances	Beginning Balance 2018	2018 Surplus/(Deficit)	2018 Approved Transfers	End Balance 2018
Umbrella Operating Agreement	3,434,824	1,603,466	(3,656,980)	1,381,310
ILBC Agreement	(770)	(39,482)	(22,528) ¹	(62,780)
No Operating Agreement	114,568	9,072	0	123,640

¹Includes BCHMC prior year adjustment of \$22,528

CONCLUSION

The main drivers for the 2018 and 2019 estimated surpluses are the increased tenant rent revenue and the decreased property taxes, landscape maintenance and unused contingency. Staff is recommending these surpluses be transferred to the appropriate Portfolio Stabilization Reserves.

RECOMMENDATIONS

- 1) That the Capital Region Housing Corporation 2019 Operating Budgets for the Umbrella Operating Agreement, Independent Living BC Agreement, No Operating Agreement, and the Regional Housing First Program Agreement be approved; and
- 2) That any 2018 operating surplus/(deficits) to be transferred to/(from) the appropriate Portfolio Stabilization Reserves be authorized.

Capital Region Housing Corporation Board – December 12, 2018
2019 Portfolio Operating Budgets

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CC:tt

Attachments: Appendix A – UOA Operating Budget Summary
Appendix B – ILBC Operating Budget Summary
Appendix C – NOA Operating Budget Summary
Appendix D – RHFP Operating Budget Summary