



## **REPORT TO HOSPITALS AND HOUSING COMMITTEE MEETING OF WEDNESDAY, DECEMBER 04, 2019**

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### **SUBJECT      2020 Portfolio Operating Budgets**

### **ISSUE SUMMARY**

To provide the Capital Region Housing Corporation (CRHC) Board a review of estimated operating revenues and expenditures for 2019, and to present the proposed operating budgets for 2020.

### **BACKGROUND**

In 2015, the Umbrella Operating Agreement (UOA) was signed with the BC Housing Management Commission (BC Housing) and is in effect until December 31, 2019. The 2019 UOA portfolio included 42 of CRHC's 46 properties.

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.

In 2019, staff have been negotiating the renewal of the UOA, with some modifications, for a subsequent five-year term (2020-2024). The operating subsidy provided by BC Housing through the UOA is stable for the five-year operating term with the exception of when a mortgage is renewed or a mortgage matures.

- Mortgage renewal - the subsidy is increased or decreased to accommodate the new mortgage payment.
- Mortgage matures - the subsidy and mortgage payments cease; this results in future net favourable financial impacts because the subsidy payment was less than the mortgage payments.
- Fourteen properties have operating agreements expiring and mortgages maturing between 2018-2021 (Appendix A).

One of the CRHC recommended modifications is that three properties (Portage Place, Campus View, Royal Oak Square), whose original Canada Mortgage and Housing Corporation (CMHC) operating agreements expired in 2018 and 2019, be removed from the UOA portfolio and transferred to the No Operating Agreement (NOA) portfolio. This realignment will provide CRHC the flexibility to debt finance its \$4.5 million (M) share of the \$30M Capital Regional District (CRD) equity contribution to the Regional Housing First Program (RHFP).

Separate operating budgets have been prepared for the five portfolios: (UOA, NOA, Independent Living BC (ILBC), the RHFP and the Investment in Housing Innovation (IHI)). Detailed budgets can be found in Appendices B-G.

## **ALTERNATIVES**

### *Alternative 1*

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

- a) That the 2020 Operating Budget for the Umbrella Operating Agreement be approved;
- b) That the 2020 Operating Budget for the No Operating Agreement be approved;
- c) That the 2020 Operating Budget for the Independent Living BC Agreement be approved;
- d) That the 2020 Operating Budget for the Regional Housing First Program Agreement (Millstream Ridge and Spencer) be approved;
- e) That the 2020 Operating Budget for the Investment in Housing Innovation be approved; and
- f) That any 2019 operating surplus/(deficits) to be transferred to/(from) the appropriate Portfolio Stabilization Reserves be authorized.

### *Alternative 2*

That the 2020 Portfolio Operating Budgets report be referred back to staff for additional information based on Hospitals and Housing Committee direction.

## **IMPLICATIONS**

### **1. UOA Portfolio**

#### 2019 Outcomes

The approved 2019 UOA Budget estimated an operating surplus of \$1,612,610. Staff are forecasting a 2019 surplus of \$1,617,610. The net \$5,000 favourable variance represents non-manageable cost pressures in various budget lines: the significant increases in insurance premiums/deductibles and maintenance costs is offset by an increase in rental income and decreases in utilities, contracted services, and property taxes. See Appendix B for detailed variance explanations.

**Table 1: UOA summary of 2019 estimated revenue/expenditures and 2020 proposed budget**

<b>Umbrella Operating Agreement (Appendix B)</b>			
	<b>2019 Budget</b>	<b>2019 Estimates</b>	<b>2020 Proposed</b>
Total Revenue	14,127,080	14,264,180	12,640,370
Total Expenditures	(12,514,470)	(12,646,570)	(12,640,370)
Operating Surplus/(Deficit)	1,612,610	1,617,610	-

#### 2020 Budget Drivers

Effective January 2020, there will be 39 properties in the UOA portfolio with two of these properties (Michigan Square and Caledonia) being suspended while under redevelopment construction; therefore year-over-year budget comparisons do not provide meaningful variance analysis. A significant change to the 2020 budget is the \$1M increase in replacement reserve contribution and \$282 thousand (K) increase in insurance premiums and deductible expenses. Staff are proposing a 2020 balanced budget with no operating surplus.

#### *Insurance premiums and deductible*

Insurance premiums have a budgeted increase of 50% over 2018-2020 budget years. Approximately 5% of the increase is attributed to an escalation in the total insured value and the remaining increase is due to the rise of the premium rate applied to the multi-residential housing sector.

Due to the significant increase in insurance deductible, from \$10K to \$50K per incident, UOA claims management now requires a specific budget line item for \$200K. Under the UOA portfolio, CRHC processes an average of four claims per year that have a value greater than \$50K each; and therefore the \$200K will be used to pay either the deductibles or provide funding for property damage that does not reach the deductible limit.

#### *Replacement Reserve Contribution*

Staff are recommending a Routine Capital funding strategy to ensure there is sufficient revenue available for the proposed 2020-2024 UOA Capital Plan of \$11.0M total or \$2.2M per year.

- For 2020, a replacement reserve contribution of \$149/month per unit (or \$1.9M annual contribution) from the UOA operating budget and a onetime transfer of \$300K from the UOA Portfolio Stabilization Reserve (PSR) to the Portfolio Replacement Reserve (PRR) to equal the required \$2.2M UOA capital plan annual contribution.
- For 2021-2024, a replacement reserve contribution of \$173/month per unit (or \$2.2M annual contribution) from the UOA operating budgets to the PRR. This will be attainable as a result of the net savings generated by the four CMHC properties whose original operating agreements expire and the related mortgages mature in 2021.

## **2. NOA Portfolio**

The NOA operating cash flow model is based on Village on the Green's (VoG) annual operating surplus offsetting Vergo's annual operating deficit. This model allowed Vergo to increase its takeout mortgage by \$1M to enable a contribution to the new Westview development.

### 2019 Outcomes

The approved 2019 NOA Budget estimated an operating surplus of \$34,780. Staff are forecasting a 2019 surplus of \$14,542. The net (\$20,238) unfavourable variance represents the emergency flood repairs required when VoG experienced a break in the external branch waterline.

**Table 2: NOA summary of 2019 estimated revenue/expenditures and 2020 proposed budget**

<b>No Operating Agreement (Appendix C)</b>			
	<b>2019 Budget</b>	<b>2019 Estimates</b>	<b>2020 Proposed</b>
Total Revenue	700,920	739,150	1,620,880
Total Expenditures	(666,140)	(724,610)	(1,277,010)
Operating Surplus/(Deficit)	34,780	14,540	343,870

### 2020 Budget Drivers

Effective January 1, 2020, three townhouse properties (Portage Place, Campus View, and Royal Oak Square) will be added to the NOA portfolio; therefore year-over-year budget comparisons do not provide meaningful variance analysis. The proposed 2020 NOA operating surplus is \$343,870.

#### *Replacement Reserve Contribution*

Staff are recommending a funding strategy change to ensure there is sufficient revenue available for the proposed 2020-2024 NOA Routine Capital Plan of \$1.9M total. For 2020-2024, a replacement reserve contribution of \$173/month per unit (or \$255K annual contribution) will be transferred from the NOA operating budgets to the PRR.

The proposed 2020 NOA operating surplus of \$343,870, represents five properties (or 123 townhouse units) with 70% affordable market units and 30% rent-geared-to-income units. Only two of the five properties (VoG and Vergo) have outstanding mortgages. The NOA portfolio is well positioned to debt finance the CRHC \$4.5M share of the \$30M Capital Regional District (CRD) equity contribution to the RHFP.

### 3. ILBC Portfolio

Parry Place is under the ILBC operating program with BC Housing. It has a five year fixed budget that was renewed for 2019-2023, with an allowance for an increase in annual budget expense based on the Consumer Price Index (CPI), excluding the mortgage.

#### 2019 Outcomes

The approved 2019 ILBC Budget estimated a balanced budget. Staff are forecasting a 2019 deficit of (\$16,351). The deficit is due to a high vacancy rate. The ILBC agreement requires Island Health to be responsible for the placement of tenants. Through active consultation with BC Housing, Island Health and Beacon Community Services, CRHC continues to work to decrease the vacancy rate at Parry Place.

**Table 3: ILBC summary of 2019 estimated revenue/expenditures and 2020 proposed budget**

Independent Living BC Agreement (Appendix D)			
	2019 Mandated	2019 Estimates	2020 Proposed
Total Revenue	667,831	650,328	679,433
Total Expenditures	(667,831)	(666,679)	(679,433)
Operating Surplus/(Deficit)	-	(16,351)	-

#### 2020 Budget Drivers

Due to changes in Island Health's supportive care delivery model, initiated in November 2019, CRHC staff will be reporting back to the Board in 2020 on operating and ownership options for Parry Place.

The proposed increase for the 2020 Parry Place operating budget is \$11,602 or 1.7% due to the CPI rate increase.

### 4. RHFP Portfolio

Under the RHFP, the CRD purchased Millstream Ridge in January 2019 and anticipates purchasing Spencer in October 2020. CRHC will lease and operate these properties. In the first year of operations the RHFP properties will be presented separately to clearly report on their individual performance. However, under the agreement, CRHC-RHFP properties will pool their accumulated surplus/(deficits) and capital replacement reserves; similar to the Umbrella Operating Agreement.

#### 2019 Outcomes

##### *Millstream Ridge*

In 2019, CRHC acquired a 60 year lease for Millstream Ridge (132 units). The 2019 operating budget was based on 11 months of operations. Due to tight timelines, the inability to market the units in advance of taking over the building due to a communications embargo and the purchase and sale agreement projecting 90 units leased and only 39 units leased when CRHC took possession, the CRHC has experienced more vacancy than anticipated when staff presented the budget. This, along with unbudgeted property tax expense and an unanticipated surge in insurance costs, has resulted in

an estimated \$350K deficit. Staff are recommending using \$120K from unspent funds from the purchase-closing surplus process and transferring \$230K from the Corporation Stabilization Reserve to fund the remaining 2019 deficit.

**Table 4: RHFP summary of 2019 estimated revenue/expenditures and 2020 proposed budget**

<b>Regional Housing First Program Agreement - Millstream Ridge (Appendix E)</b>			
	<b>2019 Budget</b>	<b>2019 Estimates</b>	<b>2020 Proposed</b>
Total Revenue	2,181,380	1,493,250	2,294,560
Total Expenditures	(2,169,220)	(1,843,250)	(2,289,840)
Operating Surplus/(Deficit)	12,160	(350,000)	4,720

2020 Budget Drivers

*Millstream Ridge*

This will be Millstream's second year of operations and staff's focus will be on reducing unit vacancies by way of a professional marketing campaign. The proposed increase for the 2020 Millstream operating budget is \$120,620 or 5.3% due to a 12-month operating period. Millstream is anticipating a surplus of \$4,720 for 2020.

*Spencer*

Spencer will be in its first year of operations with only a two-month operating period. The proposed 2020 operating budget is \$185,780. Staff are proposing a 2020 balanced budget with no operating surplus. CRHC staff will review timing of purchase, mortgage rates and 2020 cashflow, and related financial implications to address any budgetary issues for a property in its first year of operations.

**Table 5: RHFP summary of 2019 estimated revenue/expenditures and 2020 proposed budget**

<b>Regional Housing First Program Agreement – Spencer (Appendix F)</b>	
	<b>2020 Proposed</b>
Total Revenue	185,780
Total Expenditures	(185,780)
Operating Surplus/(Deficit)	-

**5. IHI Portfolio**

Westview, a 73-unit development at 3816 Carey Road, was approved for funding through the BC Housing IHI program. The approved project budget included a CRHC \$1.0M equity contribution, a repayable \$8.5M first mortgage, and a forgivable \$7.2M second mortgage in favor of BC Housing. Westview is currently under construction and is expected to be commissioned in May 2020.

**Table 6: IHI summary of 2019 estimated revenue/expenditures and 2020 proposed budget**

<b>Investment in Housing Innovation Agreement (Appendix G)</b>	
	<b>2020 Proposed</b>
Total Revenue	507,060
Total Expenditures	(501,060)
Operating Surplus/(Deficit)	6,000

## 2020 Budget Drivers

Westview will be in its first year of operations with an eight-month operating period. The proposed 2020 operating budget is \$501,060. Staff are anticipating a \$6K surplus in 2020. CRHC staff will review timing of commissioning, mortgage take-out interest rates, and related financial implications to address any budgetary issues as the property is in its first year of operations.

## 6. Portfolio Stabilization Reserves

Based on the 2019 estimated surpluses being contributed to the applicable portfolio stabilization reserves; one-time 2019 UOA transfers to PRR, capital development and renewal projects; and the Corporate Stabilization Reserve transfer to RHFP Millstream, Table 6 summarizes the estimated 2019 year end reserve balances.

**Table 6: Summary of Portfolio Stabilization Reserves**

Portfolio Stabilization Reserve Balances	2019 Beginning Balance	2019 Surplus/(Deficit)	2019 Approved Transfers from/(to)	2019 Ending Balance
Umbrella Operating Agreement	3,434,824	1,617,610	(3,656,980)	1,395,454
ILBC Agreement	(63,219)	(16,351)	-	(79,570)
No Operating Agreement	129,110	14,540	-	143,650
Regional Housing First Agreement	-	(350,000)	350,000 <sup>1</sup>	-

<sup>1</sup>Transfer from Corporation Stabilization Reserve (CSR) and Capital Surplus

<sup>2</sup> CSR schedule included in December 4, 2019 Hospital & Housing Committee Agenda Item 6.4, Appendix A

## 7. Overall Staffing Implications

Caretaker salaries and administrative overhead are allocated to properties based on either hourly staffing requirements or unit count. The 2020 caretaker budget line has an increased due to contract increases in CUPE salaries, the addition of one full time employee (FTE) to support administrative works control, and two caretaker FTEs for property management services related to the new properties (Westview and Spencer). These positions were identified in the 2020 Housing Affordability Initiative Business Case (1a-2 – Housing Investment through RHFP).

## **CONCLUSION**

The main drivers for the 2019 and 2020 estimated surpluses/(deficits), and balanced budgets, are increased contributions to the replacement reserves; increased insurance premiums and deductible costs; and ongoing inflationary pressures from contracted services. Staff are recommending that any operating surpluses/(deficits) be transferred to the appropriate portfolio stabilization reserves.

## **RECOMMENDATIONS**

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

- That the 2020 Operating Budget for the Umbrella Operating Agreement be approved;
- That the 2020 Operating Budget for the No Operating Agreement be approved;
- That the 2020 Operating Budget for the Independent Living BC Agreement be approved;
- That the 2020 Operating Budget for the Regional Housing First Program Agreement (Millstream Ridge and Spencer) be approved;
- That the 2020 Operating Budget for the Investment in Housing Innovation be approved; and

- f) That any 2019 operating surplus/(deficits) to be transferred to/(from) the appropriate Portfolio Stabilization Reserves be authorized.

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**ATTACHMENTS**

Appendix A – Expiring Properties  
Appendix B – UOA Operating Budget Summary  
Appendix C – NOA Operating Budget Summary  
Appendix D – ILBC Operating Budget Summary  
Appendix E – RHFP Operating Budget Summary – Millstream Ridge  
Appendix F – RHFP Operating Budget Summary – Spencer  
Appendix G – IHI Operating Budget Summary