CRHC
The Capital Region's Housing Corporation

REPORT TO HOSPITALS AND HOUSING COMMITTEE
MEETING OF WEDNESDAY, DECEMBER 01, 2021

SUBJECT **2022 Portfolio Operating Budgets**

ISSUE SUMMARY

To provide the Capital Region Housing Corporation (CRHC) Board a review of estimated operating revenues and expenditures for 2021, and to present the proposed operating budgets for 2022.

BACKGROUND

In 2015, the Umbrella Operating Agreement (UOA) was signed with the BC Housing Management Commission (BC Housing) and was renewed in 2019 to December 31, 2024. The 2021 UOA portfolio includes 39 of CRHC's 50 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 negotiated 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.
- Seven properties have operating agreements expiring and mortgages maturing between 2022-2024 (Appendix A).

Three properties (Portage Place, Campus View, Royal Oak Square), whose original Canada Mortgage and Housing Corporation (CMHC) operating agreements expired in 2018 and 2019, were removed from the UOA portfolio and transferred to the No Operating Agreement (NOA) portfolio. This realignment provided CRHC the flexibility to debt finance its $4.5 million (M) share of the $40M Capital Regional District (CRD) equity contribution to the Regional Housing First Program (RHFP).

Separate operating budgets have been prepared for the six portfolios: UOA, NOA, Independent Living BC (ILBC), the RHFP, the Investment in Housing Innovation (IHI) and the Community Housing Fund (CHF). Each portfolio budget is included in Appendix B through G and includes the 2021 estimated surplus/deficit and budget projections for years 2 through 5.

At the July 2021 CRHC Board meeting, the Board amended the CRHC annual financial plan including transfers to fund lower than planned revenues in the RHFP portfolio. Transfers were funded from $523,871 remaining capital project funds, a transfer of $500,000 from Corporate Stabilization Reserve, and carry forward deficit of ($89,740).

ALTERNATIVES

Alternative 1
The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:
1. That the 2022 Operating Budget for the Umbrella Operating Agreement be approved;
2. That the 2022 Operating Budget for the No Operating Agreement be approved;
3. That the 2022 Operating Budget for the Independent Living BC Agreement be approved;
4. That the 2022 Operating Budget for the Regional Housing First Program Agreement be approved;
5. That the 2022 Operating Budget for the Investment in Housing Innovation be approved;
6. That the 2022 Operating Budget for the Community Housing Fund (CHF) be approved; and
7. That any 2021 operating surplus/(deficits) to be transferred to/(from) the individual Portfolio Stabilization Reserves be authorized.

Alternative 2
That the 2022 Portfolio Operating Budgets report be referred back to staff for additional information based on Hospitals and Housing Committee direction.

IMPLICATIONS

UOA Portfolio

2021 Outcomes
The approved 2021 UOA budget estimated a balanced operating result. Staff are forecasting a 2021 surplus of $609 thousand (K). The favourable variance represents an increase in rental income and fewer than anticipated insurance deductible payments offset by some cost pressures in insurance premiums, utilities, and maintenance costs. The 2021 actual surplus will be transferred to the UOA operating reserve. See Appendix B for detailed variance explanations.

Table 1: UOA Summary 2021 Estimated Revenue/Expenditures & 2022 Proposed Budget

Umbrella Operating Agreement (Appendix B)			
	2021 Budget	**2021 Estimates**	**2022 Proposed**
Total Revenue	12,742,465	12,829,066	12,716,418
Total Expenditures	(12,509,757)	(12,220,539)	(12,520,664)
Operating Surplus/(Deficit)	232,708	608,527	195,754

2022 Budget Drivers
The 2022 UOA budget will see a small decline in subsidy revenue which corresponds to a decline in mortgage payments as mortgages continue to mature. Insurance premiums continue to rise, and the contribution to the replacement reserve is aligned to budgeted expenditures of the 5-year Routine Capital Plan. Staff are proposing a 2022 budget showing a small surplus of $196K.

Insurance premiums
Insurance premiums have a budgeted increase of 10.6% over the 2021 budget year. 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.

Insurance Deductibles
A budget line for insurance deductibles is being carried to address the significant increase in these costs, from $10K to $50K per incident. Staff continue to work with the BCNPHA, who led the insurance procurement on behalf of the sector membership, to explore other options to address the rising insurance costs.

Replacement Reserve Contribution
Staff are recommending a funding strategy to ensure there is sufficient revenue available for the proposed 2020-2024 UOA Routine Capital Plan of $11M total or $2.2M per year. Staff are recommending a contribution to the Replacement Reserve of $173 per unit per month in the UOA in order to effectively fund the Routine Capital Plan work planned within the portfolio.

NOA Portfolio

<u>2021 Outcomes</u>
The approved amended 2021 NOA budget estimated an operating surplus of $344K. Staff are forecasting a 2021 surplus of $397K, which results in an anticipated positive variance of $54K. The anticipated surplus will be transferred into the NOA Stabilization Reserve.

Table 2: NOA Summary 2021 Estimated Revenue/Expenditures & 2022 Proposed Budget

No Operating Agreement (Appendix C)			
	2021 Budget	**2021 Estimates**	**2022 Proposed**
Total Revenue	1,603,626	1,628,580	1,683,290
Total Expenditures	(1,260,439)	(1,231,303)	(1,558,549)
Operating Surplus/(Deficit)	343,187	397,277	124,741

<u>2022 Budget Drivers</u>
The main cost pressures impacting the NOA Operating budget are insurance premiums, maintenance, management fees, and mortgage payments. In 2022, the increase in insurance premium is based on known rate changes in July 2021 and estimated increases anticipated to take effect in July 2022. Increased maintenance is anticipated in the portfolio and cost estimates are based on detailed diligence and scheduling. Management fee increases are detailed in the 2022 Administration and Development Services Budget staff report and is the result of the addition of two full time equivalents (FTE) and increased staffing costs as well as increases in corporate allocations that include Standard Overhead (29%), Human Resources (63%), and Building Occupancy (112%) from 2021 to 2022. Finally, the proposed increase to mortgage payments is tied to the new mortgage at Royal Oak Square to support the $4.5M commitment from CRHC into the RHFP.

Replacement Reserve Contribution
Staff are recommending a funding strategy change to ensure there is sufficient revenue available for the proposed 2020-2024 NOA Routine Updated Capital Plan of $2M 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 Replacement Reserve to fund proposed works in the Routine Capital Plan.

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.

<u>2021 Outcomes</u>
The approved 2021 ILBC budget estimated a very small operational surplus of 6K. Staff are forecasting a 2021 deficit of $6K for an anticipated variance of $12K. 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 2021 Estimated Revenue/Expenditures & 2022 Proposed Budget

Independent Living BC Agreement (Appendix D)			
	2021 Mandated	**2021 Estimates**	**2022 Proposed**
Total Revenue	679,433	658,834	691,795
Total Expenditures	(673,604)	(665,083)	(685,970)
Operating Surplus/(Deficit)	5,829	(6,249)	5,825

<u>2022 Budget Drivers</u>
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 2022 on longer-term operational options for Parry Place.

RHFP Portfolio

Under the RHFP, the CRD added Hockley House to the portfolio in April 2021. In total, the portfolio now consists of four properties and 534 units of mixed income, non-subsidized rental housing. These properties are owned by the CRD and operated by CRHC under long-term leases. Under the Operating Agreements, RHFP properties pool their accumulated surplus/(deficits) and Capital Replacement Reserves. This is similar to how the Umbrella Operating Agreement portfolio and No Operating Agreement portfolios manager surpluses and deficits.

<u>2021 Outcomes</u>
Millstream Ridge experienced significant impacts associated with the COVID-19 pandemic in 2020 and into though 2021. Specifically, not being able to show occupied suites due to tenants being concerned about traffic into the suites, having to stagger trades at turnover and limited access to elevators resulted in longer than anticipated unit turnovers and a higher than planned vacancy rate. The 2021 forecasted vacancy rate at the property was 3% with the observed being 4% at the end of Q3 2021. This shows a positive movement from the 6.3% observed through 2021, but does continue to be slightly behind budget assumptions. West Park and Spencer

opened in November 2020 and Hockley House in April 2021. All three properties have experienced slower than anticipated rent-ups. At the July 2021 CRHC Board meeting, the Board received a CRHC operational update detailing the rent-up trends in the RHFP portfolio and approved an amendment to the budget. The 2021 amended budget anticipated a deficit of $1.1M and staff are forecasting a deficit of $1.0M at year end. This deficit is to be addressed through the use of capital project remaining funds and a transfer from the Corporate Stabilization Reserve with the portfolio. The July 2021 budget amendment approved a deficit at year end of ($89K) and the anticipated deficit position for the portfolio will be ($36K).

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

Regional Housing First Program (Appendix E)			
	2021 Amended Budget	**2021 Estimates**	**2022 Proposed**
Total Revenue	6,168,012	5,800,700	8,556,418
Total Expenditures	(7,265,796)	(6,846,969)	(8,207,453)
Operating Surplus/(Deficit)	(1,097,784)	(1,046,269)	348,965

<u>2022 Budget Drivers</u>
Key budget drivers going into 2022 include projected increases in gas, landscaping, maintenance, management fees, mortgage payments and water charges due primarily to the addition of 51 units. Prosser, located in Central Saanich, is anticipated to come online in Q2/Q3 2022 and is driving increases in cost in key areas across the portfolio. However, these additional costs are offset by anticipated increases in revenue as the building rents up.

IHI Portfolio

<u>2021 Outcomes</u>
Westview, a 73-unit development at 3816 Carey Road, opened in spring 2020 with rents slightly lower than budgeted due to rent-up taking place during the COVID-19 pandemic. Despite this, the building was expected to generate a surplus of $142K in 2021. Staff are anticipating a surplus of $187K for an increase of $46K. This is due to slightly lower than anticipated costs for caretaking, garbage, hydro and the insurance deductible.

Table 5: IHI Summary 2021 Estimated Revenue/Expenditures & 2022 Proposed Budget

Investment In Housing Innovation Agreement (Appendix F)			
	2021 Budget	**2021 Estimates**	**2022 Proposed**
Total Revenue	812,668	839,360	857,510
Total Expenditures	(670,871)	(652,025)	(709,454)
Operating Surplus/(Deficit)	141,797	187,335	148,056

<u>2022 Budget Drivers</u>
The proposed 2022 Operating budget expenditures of $709K increases $37K from the 2021 due to anticipated increases in utilities, insurance premium and management fee. As the property is now in its second full year of operation, staff are beginning to have a record of actual costs over time that is helping to inform the budget going forward and the proposed 2022 budget better reflects the real costs through 2021.

CHF Portfolio

<u>2021 Outcomes</u>
2782 Spencer, a 58-unit building located in Langford is expected to open in October 2022 and is anticipated to be operating through Q4.

Table 6: CHF Summary 2021 Estimated Revenue/Expenditures & 2022 Proposed Budget

Community Housing Fund Agreement (Appendix G)			
	2021 Budget	**2021 Estimates**	**2022 Proposed**
Total Revenue	-	-	31,500
Total Expenditures	-	-	(31,500)
Operating Surplus/(Deficit)	-	-	-

<u>2022 Budget Drivers</u>
As the building becomes operational late in 2022, staff are anticipating revenues of $32K and expenditures of $32K with no anticipated surplus/deficit. Once the subsidy attached to this building begins to flow, a small surplus will be anticipated and planned for in future years. This is in line with language in the BC Housing CHF operating agreements.

Portfolio Stabilization Reserves

Based on the 2021 estimated surpluses being contributed to the applicable portfolio stabilization reserves and capital development and renewal projects; Table 7 summarizes the estimated 2021 year end reserve balances.

Table 7: Summary of Portfolio Stabilization Reserves

Portfolio Stabilization Reserve Balances	2021 Beginning Balance	2021 Surplus/(Deficit)	2021 Approved Transfers from/(to)	2021 Ending Balance
UOA	2,588,625	608,527	530,800	3,119,425
NOA	137,744	397,277	397,277	535,021
ILBC Agreement	(38,827)	(6,249)	(6,249)	(45,076)
RHFP	(13,589)	(1,046,269)	1,023,871	(35,987)
IHI	120,592	187,335	187,335	307,927
CHF	-	-	-	-

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

Overall Implications

<u>Staffing</u>
Caretaker salaries and administrative overhead are allocated to properties based on hourly staffing requirements. The 2022 caretaker budget line has an increase due to contract increases in salaries and increases in salaries due to one new additional caretaker FTE for property management services related to two new properties (Prosser and 2782 Spencer). This position was identified in the 2022 Housing Affordability Initiative Business Case (1a-2 – Housing Investment through RHFP).

Rental Rates

Based on the BC Government announcement that rent increases are permitted effective January 1, 2022, budgets have been prepared assuming a 1.5% rent increase as units become eligible, starting February 2022. The estimated increase in rental revenue (February-December 2022) could be $100,000 across all buildings. Units which have turned over or began tenancies within 12 months prior to the increase effective date would not be eligible.

CONCLUSION

The main drivers for the 2021 and 2022 estimated surpluses/(deficits), and balanced budgets, are increased insurance premiums; ongoing inflationary pressures from contracted services, additional costs associated operations and the impacts of the provincially mandated rent freeze. Staff are recommending that any operating surpluses/(deficits) be transferred to the appropriate portfolio stabilization reserves.

RECOMMENDATION

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

1. That the 2022 Operating Budget for the Umbrella Operating Agreement be approved;
2. That the 2022 Operating Budget for the No Operating Agreement be approved;
3. That the 2022 Operating Budget for the Independent Living BC Agreement be approved;
4. That the 2022 Operating Budget for the Regional Housing First Program Agreement be approved;
5. That the 2022 Operating Budget for the Investment in Housing Innovation be approved;
6. That the 2022 Operating Budget for the Community Housing Fund (CHF) be approved; and
7. That any 2021 operating surplus/(deficits) to be transferred to/(from) the individual Portfolio Stabilization Reserves be authorized.

Submitted by:	Don Elliott, MUP, Senior Manager, Regional Housing
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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
Appendix F – IHI Operating Budget Summary
Appendix G – CHF Operating Budget Summary