



FINAL

OTTAWA COMMUNITY HOUSING CORPORATION

**2017
OCH FINANCIAL BRIEF**



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INTRODUCTION

The information provided in this financial brief is intended as a supplement to the 2017 budget report. It provides a reference for Board and Committee members with important information regarding the Ottawa Community Housing Corporation (OCH) financial environment and funding framework and financial activity for 2017.

Ottawa Community Housing provides affordable rental accommodations to over 30,000 residents, including singles, families, seniors and those with special needs. OCH has an aging and diverse housing portfolio with close to 15,000 housing units – apartments, townhouses, rooming house units, multi-residential and some single family homes. Close to 3,000 households include tenants who qualify for the Ontario Disability Support Program. Over 6,600 children, 12 years old and under, live in OCH communities. The quality of OCH housing has a direct impact on the quality of life of over 30,000 tenants.

2017 Financial Picture

For 2017, OCH total budgeted expenditures are estimated at \$196.2 million and total budgeted revenues are estimated at \$159.9 million across all funds. The 2017 balance for all funds is forecast at \$53.8 million versus the 2016 year end projection of \$50.5 million. The relative stability in the all funds forecast is due largely to the contribution that is forecast from refinancing in 2017, development grants and the proceeds from divestiture.

	2015 Actual All Funds	2016 Budget All Funds	2016 Projected All Funds	2017 Proposed Budget By Fund						2017 Preliminary All Funds	2017 vs 2016 \$	2017 vs 2016 %
				OP Fund	CAP Fund	GF	CRF	VEH	ICA			
Expenses												
Debt Servicing	31,343	30,251	30,468	29,751	-	-	-	-	-	29,751	(500)	-1.65%
Staffing Costs	32,926	35,776	35,644	32,529	5,032	207	135	-	-	37,903	2,127	5.94%
Utilities	23,439	23,398	23,247	23,947	-	-	-	-	-	23,947	550	2.35%
Building Operations	61,087	70,481	60,585	23,042	55,961	1,615	9,010	-	-	89,628	19,147	27.17%
Administration & Other	10,015	12,273	11,119	8,468	4,694	15	1,531	252	-	14,960	2,687	21.89%
Total Expenses	158,811	172,179	161,063	117,737	65,686	1,837	10,676	252	-	196,188	24,010	13.94%
Revenues												
Service Manager	65,044	66,082	64,527	64,985	16,240	-	5,800	-	-	87,025	20,943	31.69%
Tenant Rent	65,191	65,272	65,485	65,764	-	-	-	-	-	65,764	493	0.75%
Other revenue	7,476	6,017	10,480	4,327	500	2,305	-	-	-	7,131	1,114	18.52%
Total Revenues	137,711	137,371	140,492	135,076	16,740	2,305	5,800	-	-	159,921	22,550	16.42%
Fund Balance Jan 1	49,116	36,138	36,138	3,681	30,981	4,050	4,629	-	7,130	50,471	14,333	39.66%
Net Use & Source of Funds (+/-)	(21,100)	(34,808)	(20,571)	17,339	(48,946)	468	(4,876)	(252)	-	(36,267)	(1,459)	4.19%
Reserve Contributions	-	-	-	(18,645)	18,645	-	-	-	-	-	-	0.00%
Proceeds from Property Sales	662	2,655	3,404	-	-	-	7,680	-	-	7,680	5,025	189.27%
Loan Proceeds	7,460	31,068	31,500	-	29,700	-	2,200	-	-	31,900	832	2.68%
Interfund Transfer	-	-	-	-	(664)	-	-	252	412	-	-	0.00%
Other Contributions	-	-	-	-	-	-	-	-	-	-	-	0.00%
Fund Balance Dec 31	36,138	35,053	50,471	2,375	29,715	4,518	9,633	-	7,542	53,784	18,731	53.44%

Utilities and debt serving costs make up approximately 27% of total costs. Materials and contracted services, including major capital work and SHIP¹ and SHARP² projects, account for close to 48% of total costs. Approximately 19% funds staffing costs. The remaining 6% of costs are for new development, vehicle acquisitions and green fund activities.

¹ Social Housing Improvement Program

² Social Housing Apartment Retrofit Program

The budget is prepared and presented in accordance with the following fund categories:

- An **Operating Fund** that supports to day-to-day operations and would include such categories as tenant rent and yearly operating expenses such as utilities, debt servicing and expenses related to the daily operations of OCH.
- A **Capital Fund** that supports work that is not part of normal day-to-day maintenance; it is durable and includes the replacement of significant building components or an improvement that increases the useful life of the asset. The fund can also cover the acquisition of office furniture and equipment including information management and technology. The fund also covers salary expenses related to capital work.
- A **Green Fund** that supports specific operational or capital initiatives which increase the environmental sustainability of OCH. Contributions to the fund may include energy grants which do not form part of the capital reserves; net savings generated from sustainability projects; and a proportion of new income generated from sustainability projects.
- The **Community Reinvestment Fund (CRF)** is a discretionary reserve that exists to develop new housing.
- The **Vehicle Fund** supports the acquisition of new vehicles.

Chart 1 and 2 provide an overview of the distribution of the major categories of expenses and revenues across OCH funds; identifying materials and services (e.g. pest management, snow removal, landscaping, and tenant unit repairs) and capital project spending as the largest use of funds and rents as the largest source of funds.

Chart 1: 2017 Expenses

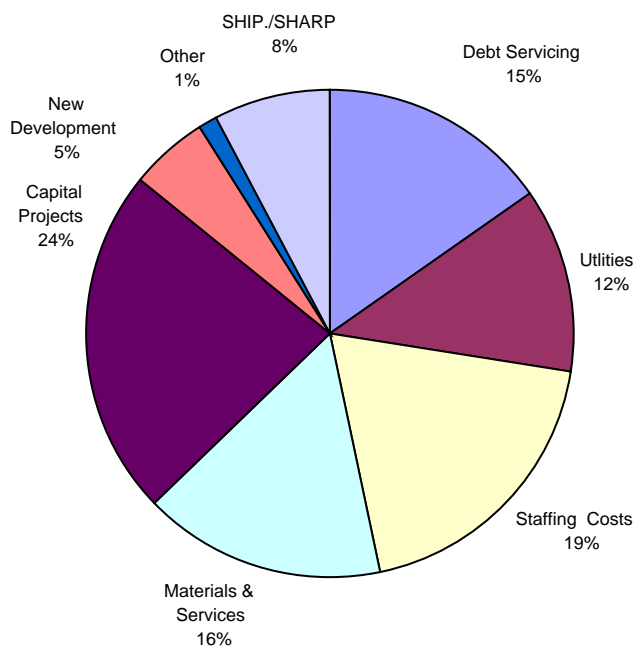
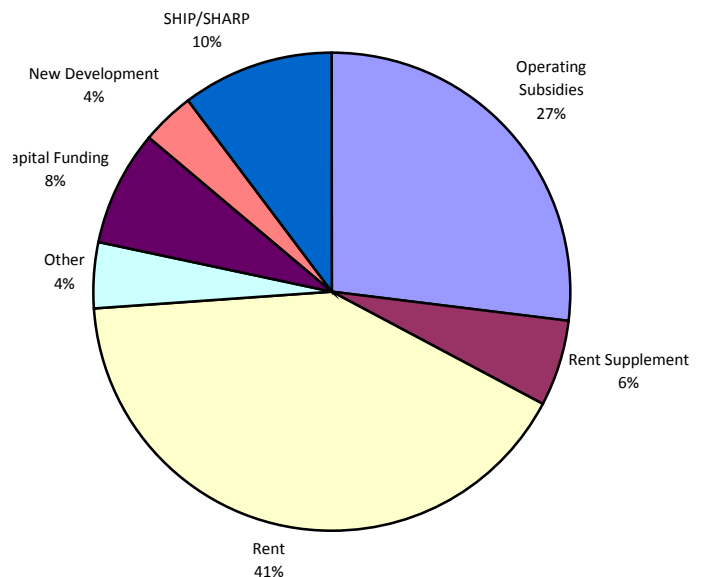


Chart 2: 2017 Revenues



FINANCIAL ENVIRONMENT AND STRATEGY

For 2017 OCH continues to identify financial opportunities that ensure financial sustainability. Key strategies for 2017 include:

Mortgage Refinancing

In 2016, OCH refinanced eleven pooled mortgages under the Operating Agreement which generated \$31.4 million that was contributed to capital reserves for the repair of the housing stock. OCH will work with the City of Ottawa, Infrastructure Ontario (IO) and the Ministry of Housing to apply this refinancing initiative to eight more pooled mortgages that are up for renewal in 2017. This strategy is estimated to generate close to \$29.7 million for capital repairs in 2017.

Increase Other Revenue Streams

OCH has increased non-residential rental revenue in recent years and will pursue new opportunities to fund maintenance and repairs. Specific areas of focus include:

- Options for the delivery of laundry services will be pursued in order to increase related revenues, following a capital project that will improve tenant service and reduce utility consumption
- New revenue opportunities (e.g. advertising, vending machine leases) will be explored

Sustainability Strategies

OCH is committed to reducing utility costs through green initiatives that use new strategies and technologies to monitor and manage energy consumption and savings. OCH has benefitted from energy and water retrofits, and tenant and staff education will reduce energy consumption and control costs. Revenue from the generation of electricity, and grants received from senior government and energy providers will be contributed to the Green Fund to support further initiatives such as the Utility Management System and the LED Lighting retrofit. OCH has implemented information technology to better monitor and manage energy consumption and savings. OCH currently operates a fleet of 121 vehicles with an average age of three years. OCH is committed to "Greening" the OCH fleet and will consider vehicle replacements that reduce OCH's carbon footprint. For 2017, OCH has budgeted \$252,000 for the replacement of approximately nine vehicles.

Portfolio Management Framework

OCH has developed a Portfolio Management Framework that will assist in divestiture decisions and the development of the portfolio. The framework incorporates a rationalization of the stock that considers the impact on tenants and ensures that new developments are sustainable.

OVERVIEW OF REVENUE AND EXPENSE CATEGORIES

OCH has the following main sources of revenue: Subsidies, tenant rents and other revenue sources.

Service Manager - City of Ottawa

Subsidies represent 55% of total revenue. The different types of subsidies are:

- Operating Grants and Subsidies
- Capital Reserve Grants and Subsidies
- New Development Grants
- SHIP and SHARP Grants
- Rent Supplements
- Safer Communities Subsidy

In 2008, an **Operating Agreement** was signed between OCH and the City of Ottawa that moved to streamline and stabilize the funding arrangement for OCH and the City. One of the main outcomes of the operating agreement was that OCH is better able to manage its operations on a portfolio basis, which will have more predictable and stable funding.

The Operating Agreement determines the operating subsidy for 80% of the portfolio. The funding formula is based on benchmarks that were established through a rigorous process across the province. The benchmarks are adjusted annually based on various indices as set out by the province. The indices for 2017 are detailed in the following table:

2017 Indices for indexed benchmark operating costs for Ottawa		
Item	Index	Index for 2017
Admin and Maintenance	Ontario CPI All Items	1.88%
Insurance	Ontario CPI - Homeowners home & mortgage insurance sub index	3.74%
Bad Debt	Market Rent Index per CMHC	MRI
Electricity	Ontario CPI - Electricity sub-index	15.38%
Water	Ontario CPI - Water sub-index	5.73%
Natural Gas	Ontario CPI - Natural gas sub-index	-10.50%
Oil & Other Fuel	Ontario CPI - Fuel oil & other fuel sub-index	-16.52%
Capital Reserves	Ontario CPI All Items	1.88%

Source : City of Ottawa Housing Branch - July 26, 2016

The Operating Agreement stipulates the number of subsidized units OCH is required to provide and maintain on an annual basis. Operating reserves assist OCH in addressing year-over-year expense fluctuations.

The City of Ottawa continues to fund a substantial portion of the Safer Communities program. The grant for Safer Communities has been increased by 1.88% (\$2.48 million) in 2017.

Annual Capital Funding Contributions

In 2017, capital reserve contributions are estimated at \$18.64 million. The City of Ottawa provides annual capital funding for housing covered by the Operating Agreement. In 2017, the City will contribute \$12.92 million under the Operating Agreement, an increase of 1.88% over 2016 (adjusted by the Ontario CPI – all items May 2016). OCH funds the balance of \$4.32 million from rent revenue in those programs outside the Operating Agreement. The annual contribution is mandated for those programs under the Operating Agreement. The Board of Directors approves the annual funding for the capital reserve accounts for programs outside the Operating Agreement.

OCH has also assumed a further \$1.4 million grant from the City of Ottawa under the Housing and Poverty Reduction Program to fund capital repairs. The grant will be contributed to the Capital Reserve directly.

The City of Ottawa has approved grant funding of \$11.3 million for OCH under the Social Housing Apartment Retrofit Program (SHARP) and \$8.7 million under the Social Housing Improvement Program (SHIP). SHARP funding is intended for retrofit projects which will reduce operating costs through gained efficiencies. SHIP funding can be used to fund a broad range of work, including replacing or installing major building components, systems or services; kitchens and bathrooms; safety features; accessibility modifications for persons with disabilities; energy efficiency or water conservation measures.

Tenant Rent

Rental income represents 41% of total revenue. The different types of rent are as follows:

- Rents Geared to Income (RGI)
- Affordable Market Rents

Rent-Geared-to-income (RGI)

RGI rent is calculated based on guidelines from the Province of Ontario. Rent scales are set for tenants receiving assistance from the Ontario Disability Support Program or Ontario Works. Other tenants pay 30% of their gross income, with a minimum rent of \$85.

Affordable Market Rents

In 2017, OCH market rents are set at the affordable end of the range of private sector rents. This does not suggest that they will be affordable to all households – RGI subsidies are needed to achieve that objective.

The current market rents were arrived at through a process that has included:

- Assessing rental market conditions in Ottawa and comparing housing communities on the basis of location, unit type and size, amenities, size of the community, utilities being included with the rent or not, and historical experience;
- Comparing OCH rents to the city-wide Canada Mortgage and Housing Corporation (CMHC) average market rents;
- Consulting with staff responsible for rental activity to evaluate the proposed rents based on the reaction of prospective tenants;
- Comparing rent ranges by housing type and unit size to ensure that consistency is reflected across the housing stock; and,
- Ensuring that the established 2017 market rents meet the definition for affordable market rent to maintain property tax exemption.

OCH 2017 market rents will increase by 1.5% in 2017. It should be noted that subsidies are available for most market tenants across the OCH portfolio, and the operating agreement with the City of Ottawa allows for greater flexibility to apply these subsidies across programs.

The market component of the OCH portfolio represents approximately 13.1% of the rental units exclusive of block leases.

The 2017 market rent revenue estimate is based on the 2016 distribution of market tenants and adjusted by the approved rent increase of 1.5%.

Other Revenue

Other revenues are generated by parking charges, laundry concessions, rental of commercial space, and rooftop antenna rentals. For 2016, these revenues are distributed across funds, and include a forecast increase of \$80,000 in parking, or 4.18% from the 2016 budget, and a forecast increase of \$98,900 in laundry revenue or 11.43% from the 2016 projected revenue. This increase reflects anticipated adjustments to current contracts, subject to take effect in 2017. Rooftop rentals are expected to generate \$466,000 in revenue for 2016. This increase is based on 2016 actual activity.

2017 Other Revenue Budget, Operating Fund			
Category	2017	2016 Budget	2015 Actuals
Parking	1,993,200	1,913,200	1,833,606
Laundry	962,500	863,600	863,350
Rooftops	466,000	437,000	568,751
Other	905,300	1,127,400	1,092,791
Total	4,327,000	4,341,200	4,358,529

The major expense categories include:

Debt Servicing

For most OCH housing (80% of the housing portfolio) debt servicing costs are fully funded under the Operating Agreement with the City of Ottawa. Debt payments related to mortgages and long term debenture debt represent \$29.8 million (15% of Budget).

Utilities

Utility costs are estimated at \$23.9 million (12% of budget), an increase of \$550,000 (2.35%) from 2016. The estimate includes a decrease (-7.0%) in natural gas costs which is the estimate as provided by Housing Services Corporation (HSC). Electricity expenses will increase by 6.5% from the 2016 budget and are based on actual experience and the forecast increase as provided by Hydro Ottawa. Water is estimated to increase by 5% per the increase forecast by the City of Ottawa.

Staffing Costs

The staff complement is budgeted at 368 Full Time Equivalents (FTEs) in 2017. The mandate and staff responsibilities encompass the following areas:

- Tenant Services
- Maintenance, Project and Asset Management
- Corporate and Tenant Communications
- Community Development
- Community Safety
- Human Resources and Payroll Services
- Financial Management and Information Technology
- Policy, Privacy and Performance Management
- Administration and Board Governance

The 2017 budget includes new positions required as a result of additional investments in capital assets related to SHIP and SHARP funding as well as positions related to tenant services. Staffing costs include benefits, COLA adjustments, mandatory contributions, incremental movement on the salary scales, and costs associated with training. For 2017, staffing costs are estimated at \$37.9 million, an increase of \$2.13 million (5.94%) from 2016. The average and median OCH salary, before benefits, is estimated at \$76,600 and \$66,600 respectively.

Building Operations

The budget for building operations is developed as a global budget across all funds. Actual activity captures type of expenditure across all funds. For 2017, costs for building operations have increased by \$19.15 million from 2016, or 27.17% to \$89.6 million. The increase is in capital funded projects, and largely reflects the additional spend related to SHIP and SHARP funded projects.

Capital Funded Expenditures

OCH is taking a longer range view of capital planning that anticipates multi-year projects and recognizes the need to balance capital spending in an affordable and sustainable manner.

The cost of capital projects for major repairs and renovations for 2017 is estimated at \$65.7 million, of which \$20 million is for new and ongoing programs of work and capital projects. Capital projects that were initiated in 2016 and under contract at the beginning of 2017 will involve an expenditure of an additional \$8.5 million. In addition to the \$28.5 million identified in the table below, 2017 spending also includes \$5.0 million in salary costs related to capital projects and \$16.7 million in other spending that includes fire restoration, replacement of furnaces and hot water tanks, and vacant unit turnover. Expenses for SHIP and SHARP funded projects are estimated at \$15.5 million in 2017.

2017 - Capital Projects	BUDGET
Roofing Program	\$ 2,250,000.00
Asphalt Program	\$ 600,000.00
HVAC/ Electrical Replacement Program	\$ 750,000.00
Generator Replacement Program	\$ 500,000.00
Elevator Upgrade Program	\$ 2,500,000.00
Furnace Program	\$ 400,000.00
Fire Safety System Renewal Program	\$ 1,000,000.00
Cladding Restoration/ Renewal Program	\$ 3,000,000.00
Bank St - Balcony Repair	\$ 500,000.00
Clementine Blvd - Balcony Repair	\$ 600,000.00
Charlotte St - Balcony Repair	\$ 1,000,000.00
Bruyere/ Belanger - Window & Door Replacement	\$ 750,000.00
Michele Heights - Regrading (Water Management)	\$ 600,000.00
District Based Priorities	\$ 2,500,000.00
SHARP and SHIP - Contingency for Program Overages	\$ 1,300,000.00
Contingency Allowance - 2017 Capital	\$ 1,750,000.00
SUBTOTAL 2017 CAPITAL PROJECTS BUDGET	\$ 20,000,000.00
2016 Carry - over (Estimate)	\$ 8,500,000.00
TOTAL 2017 CAPITAL PROJECT BUDGET	\$ 28,500,000.00

Community Reinvestment Fund (CRF)

The CRF starts 2017 with an estimated balance of \$4.6 million. The 2017 estimate for the fund assumes that nine properties can be sold with a net contribution of \$7.7 million to the CRF. The 2017 estimate also includes a contribution of \$4.6 million as a grant from the Service Manager for the Carlington Community Health Hub. It also includes a \$1.2 million grant for the in-fill development at Ashgrove (3225 Uplands Drive).

For 2017, the CRF will fund \$2.4 million for the in-fill development at Ashgrove. Costs also include \$6.38 million in construction costs for the Carlington Community Health Hub.

The CRF will also fund \$1.1 million for costs related to the portfolio management framework. These costs include divestment expenses related to properties identified for sale and consulting costs related to business cases for property development.

Green Fund

Current estimates of Green Fund activity for 2017 include \$1.0 million for Passiv Haus³ and rooftop garden at the Carlington Community Health Hub, and \$375,000 for Phase 3 of the Lighting Retrofit program. The remaining \$240,000 is for the Utility Management and Engagement Pilot Study.

Green fund sources of revenue are estimated at \$2.3 million and are driven primarily from electricity generation revenue and program rebates and incentives.

³ Standard for energy efficiency in new builds

Administration and Other

This expense category includes overhead expenses such as the cost of office supplies and furniture. It also includes costs related to legal, engineering, and audit services. The cost category continues to include a \$120,000 contribution from OCH to the OCH Foundation for Healthy Communities. Administration and Other cost has increased by \$2.7 million and is driven largely by the additional engineering and other construction consulting services required to complete SHIP and SHARP funded projects. As a result, the Capital Fund accounts for \$2.1 million of the total increase of \$2.7 million.

Vehicle Fleet

About \$252,000 will be required for vehicle acquisitions as OCH continues to acquire more fuel efficient vehicles to support the maintenance service delivery model. A transfer of \$252,000 will be required from the Capital Reserves to the Vehicle Reserve Fund to support these acquisitions.

FINANCIAL MANAGEMENT AND OVERSIGHT

OCH budgets are developed by cost and/or responsibility centre with actual activity tracked at the most appropriate level of expenditure. For example, a budget for site service expenses is estimated for all activity related to property management, with no requirement to develop detail budgets by category of expenditure. Actual expenditure, however, will be tracked at a detail level. This allows greater flexibility in the management budgets. Reporting on expenditures can be done at a building level, community and by program. Budget to actual expenditure reporting can be consolidated at a higher level to provide a summary of revenues and expenses for the entire Corporation in a format or formats that meet reporting requirements for the Shareholder, the Board of Directors, or others. With this flexibility, property managers are able to generate reports using various queries.

Role of the Board of Directors and the Finance and Audit Committee

The Board of Directors is made up of the Mayor as ex-officio, four City Councillors and five members of the community and one tenant member. The Board of Directors is responsible for setting policy direction and is legally accountable for the business of OCH. The Finance and Audit Committee has responsibility for providing advice to the Board on financial issues and for providing a focus for Board oversight of financial management for OCH.

Key assumptions, cost drivers and funding constraints considered in the development of the 2017 budget were reviewed with the Finance and Audit Committee on September 8, 2016, with a final review conducted on December 15, 2016 prior to approval of the budget by the OCH Board of Directors on January 19, 2017.

Organizational Structure and Responsibility Centres

Specific responsibility centres capture spending activity within functional areas. Some senior managers are responsible for more than one responsibility centre.

Chief Executive Officer

The Chief Executive Officer is the senior staff person and serves as the principal liaison between the Shareholder, the OCH Board of Directors and staff. It is the responsibility of the Chief Executive Officer to keep the Board advised of OCH activities and to ensure that policies and directions approved by the Board and Shareholder are implemented.

Organizational Effectiveness

The focus of Organizational Effectiveness is on internal and external communications, media relations, information systems and technology, policy, privacy, performance management, Board governance, capacity development, continuous improvement and strategic and business planning.

Tenant Services

Tenant Services is primarily responsible for services to tenants. Key responsibilities include:

- tenancy and housing administration
- rent collection
- resolution of tenant complaints/conflicts
- delivery of Integrated Pest Management services
- demand and preventative maintenance
- pest management and landscaping
- turnover of vacant units
- tenant related legal actions
- OCH call centre

The VP Tenant Services also oversees the function of Human Resources and its services for OCH

Community Development

Community Development has a primary focus on community and partnership development. This team has the lead responsibility for tenant engagement strategies including the Healthy Communities Initiative and the support and development of Tenant Associations. It is also responsible for volunteer management and Community Safety Services. This team includes mobile Community Safety Workers patrolling OCH communities and contributing to creating safe communities.

Asset Management

Asset Management has a critical role in the maintenance, renewal and redevelopment of the housing stock through the development of building standards and strategic planning related to long-term asset management. Specific responsibilities include:

- capital planning and project management
- functional direction for demand and preventative maintenance services
- specialized technical expertise related to engineering and consulting
- technical support for the ongoing maintenance of OCH housing
- development and renewal of the OCH communities
- asset database management

Chief Financial Officer

The focus of the CFO is on the delivery of services that enable the work of OCH: the development and implementation of financial policies, reporting, audit and compliance requirements; payroll and benefit administration; and purchasing and vendor management.