



OTTAWA COMMUNITY HOUSING CORPORATION

2018 OCH FINANCIAL BRIEF



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INTRODUCTION

The information provided in this financial brief is intended as a supplement to the 2018 budget report. It provides a reference for Board and Committee members with important information regarding the Ottawa Community Housing Corporation (OCHC) financial environment and funding framework and financial activity for 2018.

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 these residents' quality of life.

2018 Financial Picture

For 2018, OCH total budgeted expenditures are estimated at \$181 million and total budgeted revenues are estimated at \$143.7 million across all funds. The 2018 balance for all funds is forecasted at \$45.4 million versus the 2017 year-end projection of \$67.2 million. The decrease in the overall funds balance is due to lower loan proceeds from refinancing.

	2016 Actual All Funds	2017 Budget All Funds	2017 Projected All Funds	2018 Approved All Funds	2018 vs 2017 \$	2018 vs 2017 %
Expenses						
Debt Servicing	30,601	29,751	29,908	29,311	(440)	-1.48%
Staffing Costs	35,242	37,903	37,723	41,274	3,372	8.90%
Utilities	23,964	23,947	23,756	22,619	(1,328)	-5.55%
Building Operations	55,941	89,628	72,511	73,057	(16,571)	-18.49%
Administration & Other	11,355	14,960	13,742	14,758	(202)	-1.35%
Total Expenses	157,103	196,188	177,640	181,019	(15,169)	-7.73%
Revenues						
Service Manager	62,609	87,025	81,149	69,712	(17,313)	-19.89%
Tenant Rent	65,583	65,764	67,092	67,385	1,620	2.46%
Other revenue	10,655	7,131	5,822	6,592	(540)	-7.57%
Total Revenues	138,847	159,921	154,063	143,688	(16,233)	-10.15%
Fund Balance Jan 1	36,138	52,231	52,231	67,236	15,005	28.73%
Net Use & Source of Funds (+/-)	(18,256)	(36,267)	(23,577)	(37,330)	(1,063)	2.93%
Reserve Contributions	-	-	-	-	-	0.00%
Proceeds from Property Sales	2,849	7,680	8,882	8,400	720	9.38%
Loan Proceeds & Non-Cash Transfers	31,500	31,900	29,700	7,100	(24,800)	-77.74%
Interfund Transfer	-	-	-	-	-	0.00%
Other Contributions	-	-	-	-	-	0.00%
Fund Balance Dec 31	52,231	55,544	67,236	45,406	(10,138)	-18.25%

Utilities and debt servicing costs make up approximately 28% of total costs. Materials and contracted services, including major capital work and SHIP¹ and SHARP² projects, account for close to 46% of total costs. Approximately 23% funds staffing costs. The remaining 3% of costs are for new development, vehicle acquisitions and green fund activities.

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, increasing 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 - 2018 Expenses

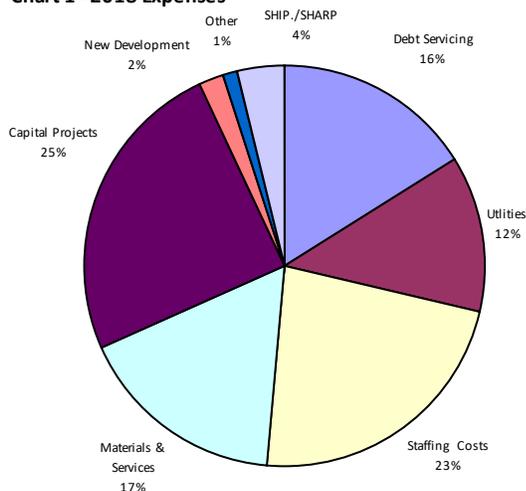
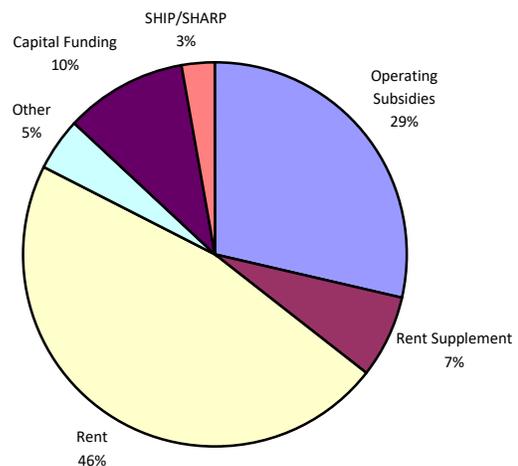


Chart 2 - 2018 Revenues



¹ Social Housing Improvement Program

² Social Housing Apartment Retrofit Program

FINANCIAL ENVIRONMENT AND STRATEGY

For 2018, OCH continues to identify financial opportunities that ensure financial sustainability. Key strategies for 2018 include:

Mortgage Refinancing

In 2017, OCH refinanced eight pooled mortgages under the Operating Agreement, generating \$29.7 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 three more pooled mortgages that are up for renewal in 2018. This strategy is estimated to generate close to \$7.1 million for capital repairs in 2018.

Increase Other Revenue Streams

OCH has increased non-residential rental revenue in recent years and will continue to pursue new opportunities to fund maintenance and repairs. Specific areas of focus have included a new laundry contract as well as daycare leases.

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 benefited 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 are contributed to the Green Fund to support 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 135 vehicles with an average age of 3.5 years. OCH has a commitment to "Greening" the OCH fleet and considers vehicle replacements that reduce OCH's carbon footprint. For 2018, OCH has budgeted \$380,000 for the replacement of approximately 12 vehicles.

Portfolio Management Framework

OCH has developed a Portfolio Management Framework that assists 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.

For 2018, OCH is planning 20 properties for divestiture that will generate \$8.4 million for new development. New development funding totals close to \$13.0 million, and includes final capital costs of \$10.0 million for Ashgrove and Carlington Community Health Hub, which will contribute 58 new homes to the OCH housing stock. The remaining costs include development costs for Rochester Heights, Overbrook and Gladstone.

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 49% of total revenue. The different types of subsidies are:

- Operating Grants and Subsidies
- Capital Reserve Grants and Subsidies
- 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 2018 are detailed in the following table:

2018 Indices for indexed benchmark operating costs for Ottawa		
Item	Index	Index for 2018
Admin and Maintenance	Ontario CPI All Items	1.38%
Insurance	Ontario CPI - Homeowners home & mortgage insurance sub index	5.08%
Bad Debt	Ontario CPI All Items	1.38%
Electricity	Ontario CPI - Electricity sub index	-16.12%
Water	Ontario CPI - Water sub index	3.97%
Natural Gas	Ontario CPI - Natural gas sub index	11.63%
Oil & Other Fuel	Ontario CPI - Fuel oil & other fuel sub index	14.20%
Capital Reserves	Ontario CPI All Items	1.38%

Source : City of Ottawa Housing Branch - August 2, 2017

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 1.38% (\$2.5 million) in 2018.

Annual Capital Funding Contributions

In 2018, capital reserve contributions are estimated at \$18.7 million. The City of Ottawa provides annual capital funding for housing covered by the Operating Agreement. In 2018, the City will contribute \$13.1 million under the Operating Agreement, an increase of 1.38% over 2017 (adjusted by the Ontario CPI – all items May 2017). OCH funds the balance of \$4.2 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.

In 2017, the City of Ottawa 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 that 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 requiring barrier-free homes; energy efficiency or water conservation measures. For 2018, \$7.1 million has been carried forward for projects to be completed in 2018.

Tenant Rent

Rental income represents 46% 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 2018, 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 2018 market rents meet the definition for affordable market rent to maintain property tax exemption.

OCH market rents will increase by 1.8% in 2018. 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% of the rental units exclusive of block leases.

The 2018 market rent revenue estimate is based on the 2017 distribution of market tenants, and adjusted by the approved rent increase of 1.8%.

Other Revenue

Other revenues include parking charges, laundry concessions, rental of commercial space, and rooftop antenna rentals. For 2018, these revenues are distributed across funds, and include a forecast increase of \$196,300 in parking, or 10% from the 2017 budget, and a forecast increase of \$13,300 in laundry revenue or 1% from the 2017 projected revenue. This increase reflects anticipated adjustments to contracts. Rooftop rentals are expected to generate \$499,400 in revenue for 2018. This increase is based on 2017 actual activity. The spike in 2016 actual other revenue is related to a non-recurring receipt from Hydro rebates.

2018 Other Revenue Budget, Operating Fund			
Category	2018 Budget	2017 Budget	2016 Actuals
Parking	2,189,500	1,993,200	1,974,900
Laundry	975,800	962,500	864,900
Rooftops	499,400	466,000	483,500
Other	866,700	905,300	5,100,400
Total	4,531,400	4,327,000	8,423,700

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 \$29.5 million (16% of budget).

Utilities

Utility costs are estimated at \$22.6 million (12% of budget), a decrease of \$1.3 million, or 5.55%, from 2017. The estimate includes a decrease of 7.0% in natural gas costs, which is the estimate as provided by Housing Services Corporation (HSC). Electricity expenses will decrease by 21% from the 2017, and are based on savings from the announced provincial government reductions of 25% in hydro rates and the forecast increase as provided by Hydro Ottawa. Water is estimated to increase by 5.5% per the increase forecasted by the City of Ottawa.

Staffing Costs

The staff complement is budgeted at 397 positions in 2018. The mandate and staff responsibilities encompass the following areas:

- Tenant Experience
- 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 2018 budget includes new positions required as a result of additional investments in priority projects including Integrated Pest Management and the Fire Life Safety program; capital asset improvements related to SHIP and SHARP funding; as well as positions in Tenant Experience for re-housing resulting from the Portfolio Management Framework. Staffing costs include benefits, COLA adjustments, mandatory contributions, incremental movement on the salary scales, and costs associated with training. For 2018, staffing costs are estimated at \$41.3 million, an increase of \$3.4 million (8.9%) from 2017.

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 2018, costs for building operations have decreased by \$16.6 million from 2017, or 18.49% to \$73 million. The decrease is largely due to reduced approved capital funded projects for 2018 when compared to the 2017 approved budget. This is a result of less grant funding and a reduction in the Board-approved capital projects budget from \$20.0 million in 2017 to \$18.0 million in 2018.

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 2018 total budget for capital projects is estimated at \$58.2 million, as per the following table.

	Capital Projects Budget	Other Capital Works	Total Capital Budget
Roofing Program	2,250,000	-	2,250,000
Site Renewal Program (includes fencing, regrading, paving, trees)	1,600,000	-	1,600,000
Mechanical and Electrical Systems Renewal Program (includes backflow preventer program, plumbing, mechanical and electrical components)	1,040,000	-	1,040,000
Fire Safety System Renewal Program (includes generators, alarm systems, suppression systems)	2,500,000	3,860,000	6,360,000
Cladding Renewal Program (includes windows and doors, exterior walls)	4,950,000	-	4,950,000
Structural Repair Program	3,100,000	-	3,100,000
Elevator Modernization Program	1,500,000	-	1,500,000
2018 District Based Priorities	1,060,000	-	1,060,000
Sub Total	*18,000,000	3,860,000	21,860,000
Non-Project & Unforeseen Projects (e.g. turnover capital expenditures)	-	10,722,300	10,722,300
Richelieu Court Revitalization	-	1,000,000	1,000,000
Restoration	-	1,300,000	1,300,000
SHARP & SHIP roll forward from 2017, net of Fire Life Safety related projects	-	6,570,000	6,570,000
Total 2014-2017 Capital Work roll forward	8,000,000	-	8,000,000
Capital Overhead	-	6,894,600	6,894,600
Other Capital	-	1,898,000	1,898,000
Total	26,000,000	32,244,900	58,244,900

* The \$18 million in capital projects was identified in an earlier report and presented to the Board of Directors in September 2017.

Community Reinvestment Fund (CRF)

The CRF starts 2018 with an estimated balance of \$7.1 million. The 2018 estimate for the fund assumes that 20 properties will be sold with a net contribution of \$8.4 million to the CRF. The 2018 estimate also includes a contribution of \$1.8 million of the remaining forgivable loan from the Service Manager for the Carlington Community Health Hub (\$4.6 million). It also includes \$1.6 million of the remaining forgivable loan for the in-fill development at 3225 Uplands Drive - Ashgrove (\$2.8 million). An additional \$1 million dollars will be contributed from operations to support the ongoing Portfolio Management Framework.

For 2018, the CRF will fund \$4.2 million for the in-fill development at Ashgrove (16 homes). Costs also include \$5.8 million for the construction of the Carlington Community Health Hub (42 homes); \$2.1 million for the Rochester Heights redevelopment (160 homes – approximately); \$500,000 for the Overbrook development (2 homes); and \$470,000 for the Gladstone development (250 homes – approximately).

The development costs will not be expensed but will be capitalized in 2018 to recognize the value of added capital assets.

The CRF will also fund \$3.6 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 2018 include \$500,000 for Passivhaus³ and rooftop garden at the Carlington Community Health Hub, \$400,000 for Phase 4 of the Lighting Retrofit program; \$1.1 million for other Green fund initiatives and studies; and \$216,000 for staffing costs.

Green Fund sources of revenue are estimated at \$1.7 million and are driven primarily from electricity generation revenue and program rebates and incentives.

Administration and Other

This expense category includes overhead expenses such as the cost of office supplies and materials. It also includes costs related to legal, engineering, and audit services. The cost category continues to include a contribution to the OCH Foundation for Healthy Communities Programming. Administration and Other cost has decreased by \$202,000, or 1.35%.

Vehicle Fleet

About \$380,000 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 \$495,000 will be required from the Capital Reserves to the Vehicle Reserve Fund to support this program for the future.

³ Standard for energy efficiency in new builds

FINANCIAL MANAGEMENT AND OVERSIGHT

OCH budget development starts from the bottom and can be rolled into divisional, departmental and corporate levels. Each responsibility center manager is accountable to plan and budget activities at the most appropriate level of expenditure. For example, a budget for site service expenses is estimated for all activities related to the property management by common expense categories. Actual expenditure is tracked at a detail level; therefore, reporting on expenditures can be done at a building, community and/or by program level. 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, managers are able to generate live 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, 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 2018 budget were reviewed with the Finance and Audit Committee on September 12, 2017, with a final review conducted on December 12, 2017 prior to approval of the budget by the OCH Board of Directors on January 18, 2018.

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 Experience

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

- tenancy administration and planned maintenance
- resolution of tenant complaints/conflicts
- delivery of Integrated Pest Management services
- after hours maintenance services
- contracted services including landscaping and snow removal
- tenant-related legal action
- OCH call centre
- oversight of the People and Culture function identified below

People and Culture

Corporate culture is an ongoing journey that OCH embarked on a few years ago to define who we are, and what we want to be, as an organization. To ensure OCH's commitment to excellence and to our values of C.A.R.E., the People and Culture function has primary responsibility for leadership in steering the organization. Primary responsibilities include the following:

- demand maintenance
- turnover of vacant units
- Human Resources function

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 OCH communities
- asset database management

Finance

The focus of the Finance organization 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.

Appendix 1 –APPROVED ESTIMATE BY FUND

	2018 Approved All Funds	2018 Approved Estimate by Fund					
		OP	CAP	GF	CRF	VEH	ICA
Expenses							
Debt Servicing	29,311	29,311	-	-	-	-	-
Staffing Costs	41,274	34,832	6,072	216	154	-	-
Utilities	22,619	22,619	-	-	-	-	-
Building Operations	73,057	22,165	48,868	1,215	809	-	-
Administration & Other	14,758	8,162	3,305	305	2,606	380	-
Total Expenses	181,019	117,089	58,245	1,736	3,569	380	-
Revenues							
Service Manager	69,712	65,647	4,065	-	-	-	-
Tenant Rent	67,385	67,385	-	-	-	-	-
Other revenue	6,592	4,531	400	1,661	-	-	-
Total Revenues	143,688	137,563	4,465	1,661	-	-	-
Fund Balance Jan 1	67,236	1,841	43,119	4,966	7,050	-	10,260
Net Use & Source of Funds (+/-)	(37,330)	20,474	(53,780)	(76)	(3,569)	(380)	-
Reserve Contributions	-	(19,720)	18,720	-	1,000	-	-
Proceeds from Property Sales	8,400	-	-	-	8,400	-	-
Loan Proceeds & Non-Cash Transfers	7,100	-	7,100	-	3,460	-	(3,460)
Interfund Transfer	-	-	(53)	(500)	(13,084)	495	13,142
Other Contributions	-	-	-	-	-	-	-
Fund Balance Dec 31	45,406	2,595	15,106	4,391	3,257	115	19,942