



FOR APPROVAL

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: March 27, 2015 for April 7, 2015

AGENDA ITEM: 4

ITEM IDENTIFICATION:

Ancillary Services: Residential Housing – Operating Plan and Budget, 2015-16

JURISDICTIONAL INFORMATION:

Pursuant to Section 5.4 (b.) of the Business Board Terms of Reference, the Board reviews and approved the annual budget of unincorporated business ancillaries.

GOVERNANCE PATH:

1. Business Board (April 7, 2015)

PREVIOUS ACTION TAKEN:

Business Board approved the change of mandate for the Real Estate Ancillary to focus on rental housing at the January 2007 meeting.

The 2014-15 Budget was approved at the Business Board meeting on March 31, 2014.

HIGHLIGHTS:

The Residential Housing Ancillary manages 85 residential addresses with a total of 156 units in the Huron Sussex neighbourhood. Just over half of these units are used for faculty housing, for both newly appointed and visiting faculty. There are also 11 units of student family housing and 2 houses are leased to Campus Co-op. The remaining units are rented to third party tenants, who were in the houses at the time the University acquired them.

The forecast for 2014-15 shows a negative variance, due to additional expenses incurred for major maintenance, although a large part of this expenditure was an investment in the creation of

a new market rent unit, which will repay itself in under 7 years. The financial picture of the department continues to improve, as market rent units are added to the neighbourhood to replace rent controlled units. An operating deficit of \$123,540 is forecast for 2014-15. Capital maintenance and renovation costs were extensive again this year and this will continue in all years of the plan, because of the age and unique nature of the properties.

The long range plan assumes continued transitioning of vacated long term rental housing to faculty and student family housing, and cyclical capital maintenance. The implementation of the recommendations of the Huron Sussex neighbourhood plan will also be a priority for this ancillary, and should impact the financial picture in a positive way.

FINANCIAL IMPLICATIONS:

It is the goal of the Residential Housing Ancillary to operate the properties on at least a breakeven basis, to avoid the need for permanent subsidy from the operating budget. Over the last 8 years, revenue growth from the new management approach has significantly outpaced growth of operating costs and the ancillary is close to becoming a stable operation.

RECOMMENDATION:

Be It Resolved

THAT the operating budget for the Residential Housing Ancillary for 2015-16, as contained in the '2015-16 Budget' column of Schedule 1 to the *Overview of Operations and Business Plan for 2015-20*, be approved.

DOCUMENTATION PROVIDED:

St. George Campus Residential Housing Ancillary – Overview of Operations and Business Plan for 2015-20

St. George Campus Residential Housing Ancillary – Statement of Operating Results 2013-14 to 2019-20

**St. George Campus
Residential Housing Ancillary**

Overview of Operations and Business Plan for 2015-2020

The Residential Housing Ancillary manages 85 residential addresses with a total of 156 rental units in the Huron-Sussex neighbourhood. Just over half of these units are used for faculty housing, for both newly appointed and visiting faculty. There are also 11 units of student family housing. The remainder is rented to tenants who were in the houses at the time the University acquired them; many have been tenants for over 30 years. Day to day property management is contracted to an external property management firm, with capital work supervised and tendered by a University property manager. Rental rates for Faculty Housing are at market, rental rates for student family housing are slightly below market, and the rents for third party tenanted housing have been significantly constrained by rent control legislation.

The goals of the Residential Housing Ancillary are to manage the housing in the Huron-Sussex area in a fiscally responsible manner, perform necessary repairs and capital refurbishment and maintain good relationships with tenants. Units vacated by long-term tenants are refurbished when funds permit, and are rented to University tenants (i.e., faculty or student tenants). Student family housing was first introduced to the neighbourhood 7 years ago and has proven a good fit; these are often graduate students, many of whom have children of their own and appreciate the amenities and quiet atmosphere that the area offers. Student Family Housing and New Faculty Housing both have strong demand which exceeds the current supply.

The Residential Housing Ancillary is part of the Ancillary Services department, reporting to the Director of Ancillary Services. There is one full-time employee, with support provided by the Ancillary Services accounting team. Student Family Housing admissions are supported by the Admissions staff in the Charles Street Student Family Housing office, also part of Ancillary Services. In 2011, the department added a Director (at 50% FTE) to improve supervision and coordination of staff and contractors, and enhance neighbourhood relations.

Overview of operations, 2014-15

The forecast for 2014-15 is showing a negative variance as a result of a decision to invest in the renovation of a vacant unit which became available unexpectedly. The renovation was completed quickly and the unit is now rented. The payback period for this particular project is under 7 years; a better result than we have achieved with other renovations.

Other general repair expenses have included window replacements and landscaping. A very costly repair of one of our heritage properties was also completed successfully, but unfortunately storm damage at that same property occurred this winter, which has resulted in additional unexpected expenses.

At the end of this fiscal year, we anticipate a deficit of \$123,540, which is a negative variance of \$99,631 from budget.



Pictures of 36 Sussex (listed heritage) after façade repairs, 2014-15.

Operating Plan, 2015-16

We are budgeting \$488,500 for major maintenance work, which continues to be a significant annual expense in the department, given the age and unique nature of the houses. Work this year will include window replacements, roof work, masonry/porches and interior repairs. Two houses are being reclaimed from the Campus Co-op organization this year, and will be converted to new faculty and student family units (2 of each). These are the last two houses that the University had leased on a long term basis to Campus Co-op.

Demand is expected to remain strong, and rents will be subject to annual inflationary increases. Larger periodic rent adjustments will also continue to be made on market-rent units, generally after they are refurbished, or if we feel that they have dipped too far below market rates. Long-term tenanted housing is subject to the rent increase guideline set by the Ontario government,

which this year is 1.6%. Whenever possible, we apply for above-guideline increases for these units to cover the cost of capital repairs, but legislation also caps the amount and duration of these increases (3% per year, for a maximum of 3 years), which means that many units in the neighbourhood are already capped and costs of capital work can therefore not be recovered. Above guideline increases are also possible for extraordinary increases in utility costs, which will most certainly be a factor this year due to double-digit rate increases from Toronto Hydro.

Other operating costs have been assigned inflationary increases. Property management fees are charged as a percentage of gross rental income, and salary expenses are linked to collective agreements. The \$1.5 million renovation of the Campus Co-op houses will be funded with the assistance of another ancillary operation also controlled by Ancillary Services. This is shown as an interfund transfer on Schedule 2 and consists of a \$500,000 financial contribution, and a \$1 million loan. The loan will be repaid over 15 years at a rate equivalent to the University's investment income rate plus 0.25%. Repayment will begin in June 2015.

Overall, we expect a net result of (\$79,626) for 2015-16.

The Huron-Sussex neighbourhood plan

In 2010, the University and representatives from the University Community Liaison Committee created a joint working group, charged with setting forth directions for the neighbourhood that would respond equally to University and community needs. This led to a multi-year process, beginning with the establishment of principles, followed by a comprehensive year-long consultation with University stakeholders, neighbours and local government. The final result was an innovative neighbourhood development plan endorsed by all parties. For the University, this process – and its outcome - represented a positive change in its relationship with a close neighbour, and provides support for redevelopment in the neighbourhood (specifically, residential intensification of about 500 units). The Huron Sussex neighbourhood planning study received a 2014 Excellence in Planning award from the Ontario Professional Planners Institute, and was enthusiastically received by the University's Business Board in the fall of 2014.

The original objectives of the working group included a requirement to address neighbourhood "sustainability", which is defined as finding an appropriate mix of long-term and short-term occupancies that will ensure that the neighbourhood maintains its unique character and sense of history. The neighbourhood plan provides for this over the long term, by increasing density and providing a mix of housing types and rental/ownership models.

The full neighbourhood plan is ambitious and will take years to implement. In the short term, undertaking work towards the "sustainability" objective (to the extent possible, given operational and financial constraints) is important, to begin to set the ground work for other

elements of the plan. To that end, the Director of Ancillary Services and the Director of the Office of the Vice-Provost, Faculty and Academic Life, have engaged in discussions with representatives of the Huron Sussex Residents' Organization (HSRO) over the last several months. The following principles were established at the outset of the discussion:

- A long-term resident cohort provides a stable core in Huron Sussex that strengthens the neighbourhood and provides social support to shorter-term residents
- The University's purpose in operating housing (both student and faculty) is to support its academic and educational aims
- Short-term changes to operating policies for University housing in Huron Sussex must not impede the overall long-term neighbourhood plan

Recommendations that have emerged from this review have included lengthening the term limit for new faculty tenants, converting more short term units currently used for visitors to longer term units (for faculty and students), and undertaking deliberate community building programs/events through which new and existing residents can socialise. Additional consultation is occurring in March and April 2015 to refine the recommendations.

Changes will be implemented gradually and in consultation with the Office of the Vice-Provost, Faculty and Academic Life. There is no negative impact on the financial picture for the ancillary anticipated as a result of these changes; it is instead more likely that increasing occupancy duration will reduce vacancy loss and therefore have a positive impact.

Long-range plan and assumptions

We expect to have a steadily improving financial picture which allows for a small increase in needed expenditures for repairs and maintenance, and in 2017-18, an old loan that was taken to fund capital repairs will be fully amortized, which significantly improves net income that year and thereafter. Within 6 years, the ancillary should have repaid its accumulated deficit.

Rental revenue is budgeted to increase for all the years of the plan and operating costs have been assigned inflationary increases, as have overhead expenses.

UNIVERSITY OF TORONTO
ST. GEORGE CAMPUS RESIDENTIAL HOUSING ANCILLARY
STATEMENT OF OPERATING RESULTS 2013-14 TO 2019-20

	2013-14 Actual	2014-15 Budget	2014-15 Forecast	Variance		2015-16 Budget	2016-17 Budget	2017-18 Budget	2018-19 Budget	2019-20 Budget
				\$	%					
Revenue:										
Faculty/Student Housing	1,765,071	1,816,450	1,777,723	(38,727)	-2.13%	1,882,111	1,976,217	2,035,503	2,096,568	2,159,465
Residential Rentals	556,733	554,038	559,406	5,368	0.97%	557,166	565,523	576,834	588,371	600,138
Commercial Rentals	-	-	-	-	0.00%	-	-	-	-	-
Institutional and Divisional Rentals	-	-	-	-	0.00%	-	-	-	-	-
Miscellaneous income	666	7,992	7,992	0	0.00%	7,992	7,992	7,992	7,992	7,992
Interest income	-	-	-	-	0.00%	-	-	-	-	-
Total Revenue	2,322,470	2,378,480	2,345,121	(33,359)	-1.40%	2,447,269	2,549,732	2,620,329	2,692,931	2,767,595
Expenses:										
Direct Expenses:										
Property Operating Expenses	912,550	1,056,172	1,016,422	(39,750)	-3.76%	1,156,700	1,179,834	1,203,431	1,227,499	1,252,049
Capital Renewal - Major Maintenance	2,715	488,500	579,923	91,423	18.72%	488,500	467,000	459,000	484,000	484,000
Property Taxes/Grants in Lieu	162,844	165,033	167,750	2,717	1.65%	172,500	175,950	179,469	183,058	186,720
Salaries, Benefits and Office Expenses	107,635	114,159	113,312	(847)	-0.74%	119,710	123,301	127,000	130,810	134,735
Legal Fees	17,875	10,000	32,757	22,757	227.57%	20,000	20,000	20,000	20,000	20,000
Insurance	17,054	17,907	17,225	(682)	-3.81%	17,914	18,272	18,638	19,010	19,391
Amortization of Improvements	378,623	410,355	411,085	731	0.18%	417,428	473,854	249,048	232,474	232,923
Loan Interest	50,964	49,699	49,699	0	0.00%	48,356	46,930	45,416	43,807	42,190
Finance Fees	29,032	30,000	19,474	(10,526)	-35.09%	25,172	22,718	19,150	14,554	8,923
Total Direct Expenses	1,679,291	2,341,824	2,407,648	65,824	2.81%	2,466,280	2,527,860	2,321,152	2,355,214	2,380,930
Indirect Expenses:										
Institutional Overhead	9,602	10,321	10,321	(0)	0.00%	9,801	9,997	10,197	10,401	10,609
Departmental Overhead	36,787	36,787	37,234	447	1.22%	39,096	39,878	40,675	41,489	42,319
F&S Overhead	13,072	13,457	13,457	(0)	0.00%	11,718	11,952	12,191	12,435	12,684
Total Indirect Expenses	59,461	60,565	61,012	447	0.74%	60,615	61,827	63,064	64,325	65,612
Total Expenses	1,738,752	2,402,389	2,468,660	66,271	2.76%	2,526,895	2,589,687	2,384,215	2,419,540	2,446,541
Net Operating Results	583,718	(23,909)	(123,540)	(99,631)	-416.71%	(79,626)	(39,955)	236,113	273,391	321,054