



Co-operative Housing Federation of Canada
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Co-operative Housing Program Administration Agency: Expected Benefits

The Value Proposition

An enhanced risk-based approach to monitoring project performance, coupled with client-focused service and benchmarking and best practices, will result in more cost-effective use of federal funds and improved program outcomes.

Delegating responsibility for managing CMHC's co-operative housing programs to a non-governmental agency will yield benefits to multiple stakeholders. Benefits, both financial and non-financial, are expected from

- ❑ The adoption of a **new business model** for the administration of the programs that is risk-based, data-driven and customer-focused.
- ❑ **Effective partnering** with the co-operative housing sector, which will increase the trust and confidence of housing co-operatives in the administration of the programs, and bring the sector's collective knowledge to the task of developing and implementing the new business model.
- ❑ The creation of a **new benchmarking and best-practices service** that will inspire housing co-operatives to superior performance.

Benefits will flow to

- ❑ the federal government,
- ❑ the public,
- ❑ the lending community,
- ❑ housing co-operatives and their members, and
- ❑ the wider co-operative housing community.

Each of these perspectives is reviewed below.

Federal Government Perspective

The proposed agency achieves the Treasury Board of Canada's stated goal for alternative service delivery (ASD) arrangements of enhancing the government's "capacity to manage resources and relationships to achieve desired outcomes."

Specific financial benefits to government include:

- more cost-effective use of program subsidy dollars,
- lower costs associated with project failures and bailouts.

Non-financial benefits include

- continued effective program-compliance monitoring,
- enhanced partnering with the co-operative housing sector,
- the opportunity to test a new business model and then apply it more widely,
- progress towards achieving the goals of the *Government On-Line* initiative,
- achievement of a citizen-focused public service,
- strengthened program accountability, through improved information management and other measures.

A fuller discussion of these benefits follows.

More economical project operations will increase the cost-effectiveness of the programs.

The planned benchmarking and best-practices service is expected to help co-ops realize operating efficiencies, so reducing the expense to government of assisting the same low-income household, without compromising the quality of the housing offered. Where the government assistance takes the form of a rent supplement, either the cost to CMHC will fall or it will rise more slowly over time. In the 1979-1985 Section 95 program, where co-ops manage a fixed pool of income-tested subsidy dollars, more economical operations at the project level will, at the discretion of the co-op, result in one or more of the following:¹

¹ Under the S95 program, co-ops are required to make at least 15% of their units available to households who pay a charge geared to their income. A fixed pool of income-tested assistance is available to the co-op to bridge the gap between the reduced charge and the co-op's full charge. The co-op has the unilateral authority to decide how many households to assist above the 15% minimum, within the constraints of the fixed pool. It also has the authority to set the rent-to-income ratio, provided the ratio meets or exceeds the level set out in the operating agreement with CMHC. At the end of each year, any unused income-tested assistance funds above a reserve level stipulated in the agreement must be returned to CMHC.

- ❑ a reduction in the total CMHC assistance expended in the project;
- ❑ an increase in the number of low-income households served, without an increase in the CMHC assistance expended; or
- ❑ a reduction in the charge each assisted household pays, where the current rent-to-income ratio is higher than the operating agreement standard.²

Where one or more mortgage renewals at lower interest rates have reduced the co-op's capacity to assist low-income members and the co-op is receiving an Additional Financial Contribution from CMHC, more economical project operations will reduce the additional contribution required.³

It should be noted that some of the benefit from project operating economies may be offset by a decline in the number of projects that fall into trouble, as more co-ops act to avoid or overcome financial difficulties by raising their housing charges.

The agency's business model should reduce the number of projects that default on their loan obligations or have recourse to new assistance from CMHC.

Consistent with the government's current emphasis on strengthened risk management throughout federal departments and agencies, the proposed business model for the co-op agency would put risk management at the centre of the portfolio management process.

The agency will bring new expertise to the task of managing the risks inherent in the co-operative housing programs, both through its board, which will include appropriate co-op and private-sector expertise, and through the recruitment and specialized training of a talented, committed staff.

The agency will manage risk proactively. A new annual information return will lead to consistent reporting by co-ops, while a revamped information management system will support the strategic use of the information provided. The agency's promise to provide an operating performance analysis back to the co-op following the review of its return will act as an incentive to co-ops to keep their filings up to date. The review of annual financial statements will focus on co-ops' bottom-line results and the factors that

² CMHC's recent evaluation of co-operative housing programs found that a sizeable proportion of co-op households remain in core need, despite paying a charge geared to their income. One reason is that some co-ops have rationed the assistance available from CMHC by adopting a rent-to-income ratio in excess of 30%.

³ The maximum federation assistance (MFA) available to a co-op in the Section 95 program is a function of the difference between amortizing the capital cost of the project at the mortgage interest rate and at 2%. When the interest rate on the loan falls, the MFA falls. The net effect of the reduction, after taking into account the decline in the mortgage payment, is a drop in funds available for assisting low-income households. Where that reduction threatens the viability of the project, CMHC may provide an Additional Financial Contribution.

contribute to them. Identifying their own trends and sharing market and regional economic data with co-ops will help them anticipate problems and adjust their operations to meet them.

Better informed co-ops will also be less likely to defer essential maintenance or to under fund their capital replacement reserves. This will reduce the benefit from more economical operations, but will serve to mitigate the significant risk that the inadequacy of replacement reserves in many projects now poses.

Earlier intervention will reduce costs associated with providing financial workouts to troubled projects.

Improved co-op reporting, faster processing of returns, and an enhanced risk-analysis and classification process should lead to earlier detection of projects with actual or emerging operating difficulties. The agency will act promptly, enabling some problems to be redressed through advice alone, without the need for new federal assistance. Where financial workouts are needed, agency personnel will encourage co-ops to do all they can on their own to mitigate their difficulties while the agency completes its analysis. The agency's advice will reflect intelligence gathered through the benchmarking and best-practices service from co-ops who have successfully surmounted market and other difficulties.

The agency will put workout proposals in front of CMHC expeditiously. To the extent that the period of time from the initial detection of problems to CMHC approval of a workout can be shortened, the average cost of the workouts, standardized for the time value of money, should decline.

The agency's business model will support effective program-compliance monitoring.

The agency's compliance enforcement approach will be centred on the terms of the operating agreements co-ops entered into as a condition of receiving federal assistance. The agency's in-service training programs will stress the importance of the agreements and ensure that agency personnel are fully conversant with their terms.

Web access to plain-language information on program requirements and regular communications to co-ops will enhance their knowledge and understanding of program requirements, helping to counter the problem of turnover among the volunteers who govern and, in many cases, manage co-ops.

The agency affords an opportunity for effective partnering with the co-operative housing sector.

Creating the proposed agency will allow CMHC to tap the sector's considerable commitment, energy and knowledge of housing co-operatives—what makes them work

and what makes them fail—in support of public objectives, and will give the sector a strong stake in the successful management of the programs.

From CMHC's perspective, transferring its existing programs to the provinces and territories has allowed it to focus its attention on new housing initiatives, with the security of knowing that existing resources are being effectively managed within a framework of principles shared by the federal and provincial governments. Over time, it is the government's aim to transfer a greater part of the responsibility for managing native housing resources to aboriginal communities. Vesting program management responsibilities with the co-operative housing sector is consistent with these initiatives and will strengthen co-operation between the government and this key housing sector, to their mutual benefit.

The agency will provide CMHC with the opportunity to test a new business model for the administration of assisted housing programs, at moderate cost.

With support from CMHC and a considerable expenditure of its own resources⁴, CHF Canada has developed a new business model for the management of the federal co-operative housing programs that builds on successful approaches developed in other environments and combines them in a wholly original way.

The model is risk-based, data-driven and customer-focused. It is informed by the sophisticated approaches to managing portfolios that have lately been adopted for assisted-housing programs in the U.S.A. and the United Kingdom, as well as the risk-management practices employed in Canada in the regulation of financial institutions. The model takes full advantage of proven, contemporary information management methods. Data collected for compliance-monitoring and risk-management purposes will be newly employed to drive a new bench-marking and best-practices service inspired by private industry's successful innovations in this area. Service excellence and continuous improvement will be fundamental to the agency's operating philosophy.

Applying the new approach first within a separate agency will allow the government to test the model, with the co-operation of a party that has a strong stake in its success. If it succeeds, the model can be adapted to the management of other program portfolios, by CMHC and its provincial counterparts.

The proposed business model supports the federal government's *Government On-Line* initiative.

With the aim of ensuring that Canadians can "access all government information and services on-line at the time and place of their choosing," the federal government has

⁴ By its own account, to date CHF Canada has contributed \$ 362,000 of its members' funds and hundreds of hours of senior staff time to this initiative, exclusive of the resources spent marketing the proposal.

determined to become “a model user of information technology and the Internet.” The agency will further the Government On-Line project goals in the administration of federal co-op housing programs by introducing

- ❑ 24-hour on-line access to program information for housing co-ops and the public;
- ❑ Web-filing of co-ops’ annual information returns;
- ❑ protected on-line access by co-ops to their individual risk profiles, trend information and comparative performance data;
- ❑ Web-based sharing of best practices within the co-operative housing portfolio.

The agency will exemplify citizen-focused public service.

The new agency will adopt, publish and regularly measure its performance against a set of clear client-service standards that stress

- ❑ simplicity, accessibility and accuracy of information,
- ❑ clear communication, in either official language,
- ❑ responsive, timely service,
- ❑ fairness, courtesy and professionalism

in all of the agency’s dealings with the public, CMHC and housing co-operatives.

Concrete service improvements to individual co-ops will include the following:

- ❑ enhanced transparency, through greater and more convenient access to relevant information on the programs, the agency’s policies, and the co-op’s records;
- ❑ consistent interpretation of operating agreements, with due regard for client entitlements, as well as client obligations;
- ❑ faster processing of annual information returns;
- ❑ advice from a specialized staff with expertise in housing co-ops and a thorough grounding in the programs;
- ❑ prompt attention to project operating difficulties;
- ❑ a formal complaint and redress mechanism.

Co-ops will be rewarded for filing required information with the agency through the receipt back of plain-language, analytical information that is helpful to them in running their businesses and is available in the form of their choosing—in print or on line—at the time of their choosing.

Service improvements should result in enhanced client co-operation with the agency’s compliance- and risk-management activities, as co-ops come to realize that the agency shares their commitment to their success and long-term survival.

Program accountability will be maintained and strengthened.

Accountability for the co-operative housing programs will be supported and enhanced in a number of ways:

- ❑ By taking the data that is already coming in from projects and changing the way it is stored, analysed and reported, the agency will deliver better information to CMHC on the compliance and operating performance of individual projects and of the programs and portfolio as a whole.
- ❑ The information will be available to CMHC directly from the agency's database, 24 hours a day, through secure, Web-based reports.
- ❑ Information that co-ops are already required to supply for compliance purposes will be filed electronically, allowing the agency to capture it in its database and provide it to CMHC for program evaluation purposes.
- ❑ The public will have greater access to information on the programs.
- ❑ The government and the sector's capacity to safeguard the assets the programs have funded will be strengthened, resulting in improved program stewardship.
- ❑ Objective, measurable performance standards will be established for the agency and reported against regularly.
- ❑ Federal obligations to co-operative housing projects will be reliably fulfilled, at reasonable cost.

Public Perspective

Canadians will benefit from the agency as *citizens* through

- ❑ the continued success of the federal co-operative housing programs;
- ❑ the continuing presence of desirable housing in their communities that is well managed and remains affordable.

Canadians will benefit as *taxpayers* through

- ❑ continued assurance that public funds committed in support of program objectives are being used as intended and properly accounted for;
- ❑ more cost-effective use of program subsidy dollars;
- ❑ risk-management practices that will preserve the public's investment in the co-operative housing stock;
- ❑ reduced costs associated with providing financial workouts to troubled housing co-operatives.

Lenders' Perspective

The agency's planned risk-management activities will help mitigate the risk NHA lenders assumed in making loans under the federal co-operative housing programs. Lenders will benefit from a greater likelihood of being able to hold their investment through to its original maturity. This is particularly significant in the case of the 1986-1991 Federal Co-operative Housing Program, in which loans were contracted for 35-year terms.

Housing Co-operatives' Perspective

The agency will deliver important benefits to housing co-operatives operating under the federal programs, including:

A secure, stable arrangement for the administration of the federal co-operative housing programs.

Improved service.

Fair and consistent enforcement of program requirements, in a manner that supports co-ops' self-reliance.

The agency will exercise its authority over housing co-operatives fairly, impartially, honestly, prudently and openly, with due respect for the public good and the rule of law. It will be clear with program clients about what it and the government can and cannot do, and what is the responsibility of co-ops themselves or their sector organizations. It will not interfere in the affairs of co-ops that are financially sound and are complying with their operating agreements.

Earlier detection and effective remediation of their operating difficulties.

Feedback from the agency following the receipt and review of co-ops' annual information returns and the periodic provision of market information will help make all co-ops more aware of their vulnerabilities. Where difficulties are present or imminent, the agency will act quickly to ensure that remedial action is taken. The agency's benchmarking and best-practices service will help co-ops ride out weak markets and work through operating difficulties.

The opportunity to improve their operations and to save money through enhanced access to information on their own and their peers' performance.

The agency's reader-friendly reports will let co-ops spot trends in their own performance. Finding out how they compare to their peers and hearing the lessons of the best-

performing co-operatives from across the country will inspire them to improve their operations and will help them lower their costs.

Co-op Members' Perspective

Project-level operating efficiencies resulting from the agency's benchmarking and best-practices service will lead to improved affordability for all households paying the full housing charge. In the Section 95 program, the security of low-income households will be enhanced if income-tested assistance dollars are used more efficiently⁵. Other improvements in co-op operations, such as better care of the buildings, will benefit all members.

Co-operative Housing Community's Perspective

The agency's benefits will extend to the wider co-operative housing sector.

- ❑ The agency will share data on both the performance of the portfolio and regional economic and market trends with sector organizations, allowing them to assist their members in responding successfully to a changing environment. Appropriate attention will be paid to protecting confidential information.
- ❑ Fewer housing co-operatives are expected to fail and those that do encounter trouble will receive help in addressing their problems more quickly, allowing them to return their attention to providing good housing to their members and building their community.

Funding the Cost of the Agency

The creation and operation of the proposed agency will occasion certain additional costs, both one-time and continuing.

Non-recurring costs include

- ❑ the expenses of setting up the agency,
- ❑ the cost of transferring operations from CMHC, and
- ❑ costs associated with adopting a new business model, i.e. development of the planned benchmarking and best-practices service, new information systems, and other business processes.

⁵ In this program, co-ops received a fixed pool of funds with which to assist low-income households. If operating economies result in lower housing charges, those limited assistance dollars stretch further.

Additional recurring costs will arise from administering the programs through a third party, which will incur its own overhead costs (e.g. board of directors, senior-most management, audit fees) without CMHC being able to achieve a fully compensating reduction in its costs.

The government's initial and continuing financial investment in the agency will be returned through

- the realization of the financial benefits identified above;
- avoidance of the direct transfer costs that would result from handing over the programs to the provinces instead of to the agency;
- savings arising from the renewal of existing co-op housing mortgages at lower interest rates, which, if the programs were devolved to the provinces, would accrue exclusively to them⁶.

Although in keeping the programs at the federal level CMHC will remain exposed to the risks associated with providing and insuring capital financing to the projects, it will also retain the net Mortgage Insurance Fund assets⁷ associated with the programs, serving to mitigate this risk.

⁶ Whether or not the provinces of Alberta, British Columbia and Prince Edward Island will ultimately sign social housing agreements and realize these benefits is not known. Ontario, however, has already entered into a social housing agreement and would have taken the co-operative housing programs had they been offered. Manitoba did take the programs and is waiting for the agency to be established before transferring them back to CMHC.

⁷ The difference between the mortgage insurance premiums the projects paid and the accumulated investment earnings on those premiums, on the one hand, and claims and adjusting expenses paid to date, on the other.