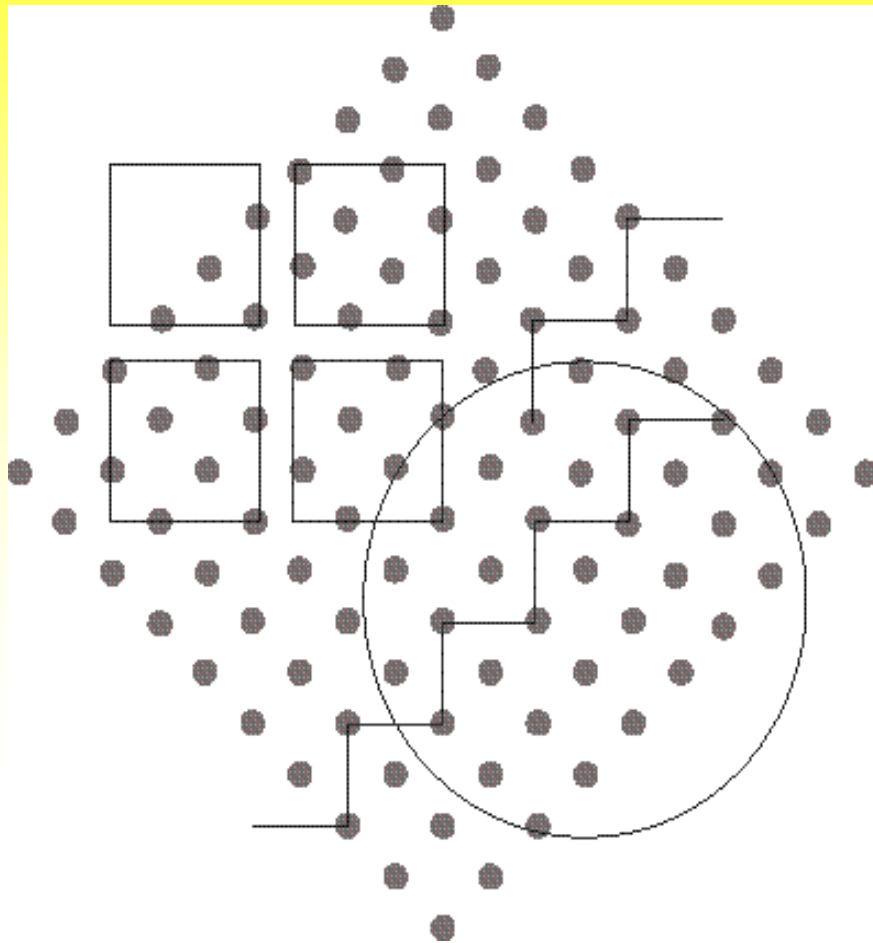


A New Administrator for Co-operative Housing Programs

The Business Case for the
Agency





The Business Case for the Agency

Outline

The evolution of the proposal

Can program outcomes be improved?

Why try to improve program performance?

Why give the job to the agency?

What is the required investment?

What are the risks and can they be managed?

Will the government recover its investment?

2



The Business Case for the Agency

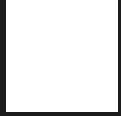
Who we are

CHF Canada: the national voice of co-op housing since 1968

A voluntary association of nearly 1,000 housing co-operatives and other stakeholders

Members in each province and territory

3



The Business Case for the Agency

The agency proposal at a glance

The agency is

A non-governmental, not-for-profit organization that will administer federal co-op housing programs outside Quebec, under an agreement with CMHC



The Business Case for the Agency

The agency proposal at a glance

The mandate of the agency

To ensure that public funds directed to the co-op programs are used as intended and properly accounted for

To protect the public investment in the programs by enhancing program performance and mitigating risks to CMHC



The Business Case for the Agency

The agency proposal at a glance

Services to CMHC

Subsidy administration

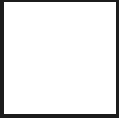
Compliance monitoring

Risk management

Default management

New service of benchmarking and best practices

6



The Business Case for the Agency

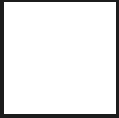
The agency proposal at a glance

The agency will not

Determine federal housing policy

Change program policies or project operating agreements

Hold and disburse subsidy monies



The Business Case for the Agency

The agency proposal at a glance

The agency will not

Administer loans

Approve new CMHC loans for troubled
co-ops

Handle loan insurance claims



The Business Case for the Agency

The evolution of the proposal

1995

CHF Canada first proposes agency as an alternative to transfer of administration of CMHC's programs to provinces and territories.



The Business Case for the Agency

The evolution of the proposal

1996

Federal budget offers programs to provinces and territories.

CHF Canada tables detailed agency proposal.

Housing co-ops support agency concept over announced transfer.

10



The Business Case for the Agency

The evolution of the proposal

1997

Co-op members meet with their MPs, sign petitions and write thousands of letters and postcards in support of the agency.

CMHC signs first four transfer agreements.



The Business Case for the Agency

The evolution of the proposal

1998

Ontario federal Liberals ask the minister not to transfer co-ops to the province.

BC government asks CMHC to remove co-ops from transfer discussions.



The Business Case for the Agency

The evolution of the proposal

1999

Federal minister announces co-ops off the table in Ontario, BC, Alberta and PEI.

Manitoba offers to transfer co-ops back. Upload will leave 90% of federal co-ops in CMHC's hands.

CMHC and Ontario sign a transfer agreement that does not include federal co-ops.



The Business Case for the Agency

The evolution of the proposal

2000

Federal minister strikes CMHC/provincial/
sector working group to study CHF
Canada's proposal.



The Business Case for the Agency

The evolution of the proposal

2001

Working group meets through winter and spring. Bilateral talks take place over summer between CMHC and CHF Canada.

Minister affirms support for agency idea, pending working group's report.

CHF Canada tables proposal revisions.



The Business Case for the Agency

The evolution of the proposal

2002

Detailed talks with CMHC follow final working group meeting.

For the sixth time, CHF Canada's member co-ops vote their overwhelming support for the agency.

Minister David Collenette asks CMHC to negotiate an agency agreement and to resolve outstanding issues in the process.

16



The Business Case for the Agency

The evolution of the proposal

2003

CHF Canada and CMHC reach agreement on agency's proposed scope of work and authority, and governance and accountability framework.

Cost issues remain unsettled.

Minister refers issue to CMHC board of directors for consideration.

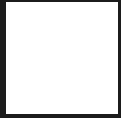


The Business Case for the Agency

The federal co-operative housing programs: a history of achievement

The CMHC Co-op Housing Programs
1973-1991: an affordable housing success story. Three programs create 56,000 affordable, resident-controlled homes in 1,800 co-ops.

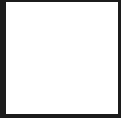
18



The Business Case for the Agency

The federal co-operative housing programs: a history of achievement

Today these programs, designed and delivered by CMHC in partnership with the co-operative housing sector, provide good quality, affordable housing to 155,000 Canadians.



The Business Case for the Agency

A positive program evaluation

In September 2003, CMHC released its *Co-operative Housing Programs Evaluation*. Findings are positive.

A positive program evaluation

The evaluation found that

“the ... co-op housing projects financed under federal programs since 1973 are providing adequate, affordable housing for low- and moderate-income households”



The Business Case for the Agency

A positive program evaluation

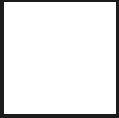
“Co-operative housing costs were about 14% lower than costs in non-profit rental housing.”



The Business Case for the Agency

A positive program evaluation

“the government expenditures are enabling households...to achieve benefits not available in rental housing such as greater security of tenure and resident control of their housing”

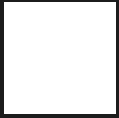


The Business Case for the Agency

A positive program evaluation

What the evaluation tells us

The programs are meeting their stated objectives and are performing satisfactorily.



The Business Case for the Agency

Can program outcomes be improved?

The 2003 evaluation pointed to challenges

45 per cent of co-ops do not have sufficient reserve funds to cover repair costs.

The total reserves deficiency was nearly \$53 million in 2001/2002.



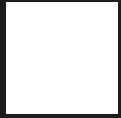
The Business Case for the Agency

Can program outcomes be improved?

The 2003 evaluation pointed to challenges

Housing co-ops out perform on costs, but are more likely to run into financial difficulty.

Difficulties are due to unforeseen repairs, vacancies, member arrears and deferred maintenance.



The Business Case for the Agency

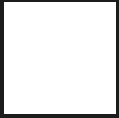
Can program outcomes be improved?

The challenges arise from

Market risk in mixed-income programs

Lack of project-level business planning

Project management weaknesses



The Business Case for the Agency

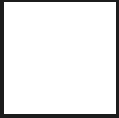
Can program outcomes be improved?

The challenges arise from

Lack of risk-based portfolio monitoring

Insufficient attention to project and market trends

Lack of information and skills transfer to and among co-ops



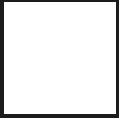
The Business Case for the Agency

A new business model

Data-driven

Risk-based

Customer-focused

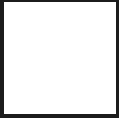


The Business Case for the Agency

A new business model

Data-driven services

The agency will take full advantage of up-to-date information technology to store, share, analyse and report back performance data to co-ops.

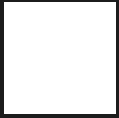


The Business Case for the Agency

A new business model

Data-driven services

The agency will identify project-specific and portfolio-wide trends and share its analysis with the co-ops to assist them in managing their businesses.

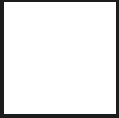


The Business Case for the Agency

A new business model

Data-driven services

The agency will gather and distribute housing market data and other information on relevant regional economic trends to improve co-ops' understanding of their business operating environment.

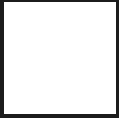


The Business Case for the Agency

A new business model

Data-driven services

Data co-ops are already reporting will drive a new benchmarking and best practices service to enhance project performance and optimize operating costs.

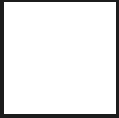


The Business Case for the Agency

A new business model

Data-driven services

The agency will harness the power of the World Wide Web to offer on-line filing of annual co-op returns, and access to program and project data and best practices information on line to co-ops, agency staff and CMHC.



The Business Case for the Agency

A new business model

A risk-based approach

An enhanced risk-based approach will focus co-op reviews on outcomes, not processes, while pointing to reasons for outcomes.



The Business Case for the Agency

A new business model

A risk-based approach

Nature and degree of supervision of each project will be based on its risk profile.

Approach will enable agency to spot quickly projects that need attention and to intervene before problems become costly to address.

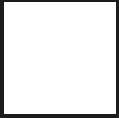


The Business Case for the Agency

A new business model

A risk-based approach

The agency will act quickly with troubled projects to mitigate losses while developing long-term solutions.



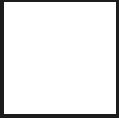
The Business Case for the Agency

A new business model

A risk-based approach

Where indicated, the agency will promptly develop workout proposals for CMHC's consideration.

The agency will encourage co-ops to understand and better manage their business risks.



The Business Case for the Agency

A new business model

Customer-focused service

The agency will adopt a client-centred service culture. Clients include co-ops and CMHC.

The agency will be transparent, offering co-ops Web access to plain-language program policies and guidelines.

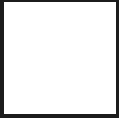


The Business Case for the Agency

A new business model

Customer-focused service

Agency staff will offer courteous, customer-friendly service, while rigorously enforcing project operating agreements and taking a business-like approach to redressing project difficulties.



The Business Case for the Agency

A new business model

Customer-focused service

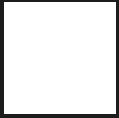
All portfolio inquiries and requests will be promptly attended to.

The agency will invite feedback from co-ops and CMHC on its services.

Why try to improve program performance?

Improvements will benefit

- government
- Canadian taxpayers and citizens
- lenders
- housing co-ops and their members

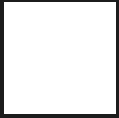


The Business Case for the Agency

Why try to improve program performance?

Benefits to government and the public

Effective use of data and sharing of information will lead to more efficient stock utilization, through more cost-effective use of subsidy dollars.



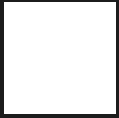
The Business Case for the Agency

Why try to improve program performance?

Benefits to government and the public

Early intervention in troubled projects will reduce costs arising from project failures and workouts.

The risk of loss of existing affordable housing will fall.

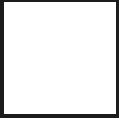


The Business Case for the Agency

Why try to improve program performance?

Benefits to government and the public

The useful life of the stock will be extended beyond the end of the project operating agreements, enhancing the return on the public investment in the programs.



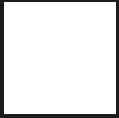
The Business Case for the Agency

Why try to improve program performance?

Benefits to project occupants

Achievement of a citizen-focused public service will produce greater program satisfaction among co-op residents.

Prompt resolution of project difficulties will enhance the quality of life for occupants.



The Business Case for the Agency

Why try to improve program performance?

Benefits to project occupants

Benchmarking and best practices will reduce costs and add to the skills of member-volunteers.

Improved project management will increase the satisfaction of all occupants.



The Business Case for the Agency

Why give the job to the agency?

A fresh start

Outsourcing portfolio management to an agency equipped with a new business model and specialized staff will provide a focus for change and facilitate improvement, now and into the future.

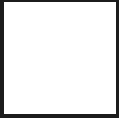


The Business Case for the Agency

Why give the job to the agency?

A “right-size” solution

The agency offers an expert, small-shop approach tailored to the needs of a specialized portfolio. A simplified decision framework, together with a customer focus, will bring new efficiencies to program administration and improve client service.



The Business Case for the Agency

Why give the job to the agency?

Capturing the sector's knowledge and drawing in private-sector expertise

No one understands better what makes housing co-ops tick than the co-op housing sector itself. The agency will tap into a wealth of experience and skills and, through its board, draw on private-sector expertise.

Why give the job to the agency?

Harnessing co-ops' self-interest in achieving better results

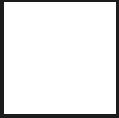
With its links to the co-op sector, the agency will enjoy the trust and confidence of housing co-ops. Benchmarking and best practices will inspire co-ops to improved performance.



The Business Case for the Agency

What is the required investment?

The creation and operation of the agency will occasion certain one-time and continuing costs to CMHC.



The Business Case for the Agency

What is the required investment?

Non-recurring costs

Proposal development and review costs

Set-up expenses

Cost of development and deployment of
new business model

Transfer and phase-in costs

The Business Case for the Agency

What is the required investment?

Non-recurring costs

	Low	High
Proposal development costs	\$ 629,100	\$ 629,100
Set-up expenses	637,300	637,300
Development of new business model	1,032,000	1,032,000
Transfer and phase-in costs	1,434,800	2,880,100
	<u>\$ 3,733,200</u>	<u>\$ 5,178,500</u>

The Business Case for the Agency

What is the required investment?

Non-recurring costs

	Low	High
Total non-recurring costs	\$ 3,733,200	\$ 5,178,500
Less CMHC contribution*	- 131,500	- 131,500
Less CHF Canada contribution**	- 497,600	- 497,600
Less recovery from Manitoba	- 138,700	- 138,700
	<u>\$ 2,965,400</u>	<u>\$ 4,410,700</u>

* Contribution to proposal research

** Business model development costs

The Business Case for the Agency

What is the required investment?

Transfer and phase-in costs

	Low	High
Staff departure packages	\$ - 0 -	\$ 1,500,000
Relocation of some CMHC staff	100,000	- 0 -
Transfer of documents	170,000	170,000
Redundant E&F	45,300	90,600
Agency phase-in operating costs*	1,119,500	1,119,500
	<u>\$ 1,434,800</u>	<u>\$ 2,880,100</u>

* Net of concurrent reduction of \$477,600 in costs at CMHC



The Business Case for the Agency

What is the required investment?

Departure package costs

26.8 CMHC staff years affected (1.5% of total workforce)

Some staff can be redeployed.

Long-term secondments to agency proposed in order to eliminate remaining cost.



The Business Case for the Agency

What is the required investment?

New recurring cost

Total agency budget (including amortization of capital expenditures) compares favourably with current CMHC all-in cost.

\$4.47 versus \$4.51 million (2003 dollars)

But some costs left behind at CMHC.

The Business Case for the Agency

What is the required investment?

New recurring costs (2003 dollars)

	Low	High
Annual agency budget	\$ 4,626,800	\$ 4,626,800
Less Manitoba recovery	- 159,200	- 159,200
	<hr/> 4,467,600	<hr/> 4,467,600
CMHC monitoring costs	100,000	100,000
Less costs transferred to agency	- 2,617,000	- 2,617,000
Less other savings in CMHC costs	- 490,600	- 0 -
Less CMHC N.O. overhead reassigned	- 1,220,200	- 0 -
	<hr/> \$ 239,800	<hr/> \$ 1,950,600



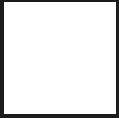
The Business Case for the Agency

What is the required investment?

Low estimate

Agency staff will do some program administration work now done by CMHC at national office, including supporting field staff.

Some costs incurred in regional business centres can be laid off.



The Business Case for the Agency

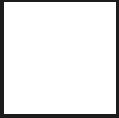
What is the required investment?

Low estimate

Less time will be spent on co-ops in trouble.

National Office overhead will be reassigned to CMHC's other business activities.

That overhead will not leave with the co-op programs but did not come with them.



The Business Case for the Agency

What are the risks and can they be managed?

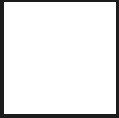
CMHC has identified these risks

Benefits do not materialize.

Program performance worsens.

Costs exceed expectations.

Agency adopts advocacy role.



The Business Case for the Agency

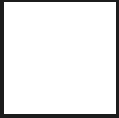
What are the risks and can they be managed?

CMHC has identified these risks

Conflicts arise between agency and CMHC or between CMHC and CHF Canada.

Agency is poorly governed or managed.

The initiative fails.



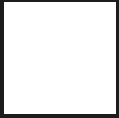
The Business Case for the Agency

What are the risks and can they be managed?

The risks can be mitigated

Through the many years spent to date researching and planning the agency's business model and operations

Through CHF Canada providing its expertise and carrying the financial risk during the systems development and start-up phase



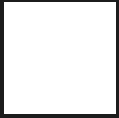
The Business Case for the Agency

What are the risks and can they be managed?

The risks can be mitigated

Through the proposed agency governance structure and accountability framework

Through CMHC/government representation on the agency board



The Business Case for the Agency

What are the risks and can they be managed?

The risks can be mitigated

Through a comprehensive legal agreement between the agency and CMHC and an agreement with CHF Canada

Through CMHC's right to take control in the event of a serious breach or administrative failure



The Business Case for the Agency

Will the government recover its investment?

Lifetime (24-year) agency cost

Net present value of lifetime recurring and non-recurring costs is between \$6.13 and \$27.6 million. CMHC overhead makes up \$15.3 million of the gap.

Offsetting returns are tangible and intangible.



The Business Case for the Agency

Will the government recover its investment?

Tangible returns

Lifetime N.P.V. financial benefit to federal government estimated at \$33.1 million, broken down as follows.

Savings of subsidy dollars: \$9.88 million

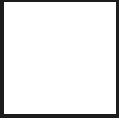


The Business Case for the Agency

Will the government recover its investment?

Above does not include savings co-ops direct to helping more low-income households or taking better care of their buildings: \$4.93 million

Reduced cost of workouts for troubled projects: \$5.41 million

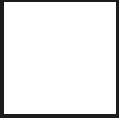


The Business Case for the Agency

Will the government recover its investment?

Protection of public investment in co-op housing stock: \$17.8 million (the cost of replacing 200 lost units)

Not included are lower assistance costs to Federal Co-operative Housing Stabilization Fund from better risk management



The Business Case for the Agency

Will the government recover its investment?

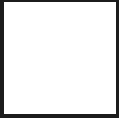
Intangible returns

Detailed in document on agency benefits

Enhanced program compliance

Strengthened program accountability

Improved service to co-ops



The Business Case for the Agency

Will the government recover its investment?

Intangible returns

Continued presence of affordable housing in local communities to planned end of programs and beyond

Opportunity to test a new business model with possible wider application



The Business Case for the Agency

Will the government recover its investment?

Intangible returns

Effective partnering with the co-op housing sector

Secure, stable arrangement for administration of the programs