The Agency for Co-operative Housing
L'Agence des coopératives d'habitation

Annual Portfolio Performance Review: 2009

Introduction

It is the Agency's task to provide an annual performance review of the portfolio of housing co-operatives under the programs we administer for CMHC. Our reports for 2007 and 2008 were meaty and thoughtful, but after producing two such studies, we recognized that we cannot do this every year. Instead, we offer this simpler review of core information about the portfolio and its performance and propose in the future to supplement our annual reports with periodic studies that examine areas of special interest.

From the first we believed that consistent, measurable progress in the portfolio would take time to manifest itself. When we compare last year's results with those seen in our first full year of operation—2007—there are signs that we are making progress toward achieving the three principal objectives set out for the Agency in our agreement with CMHC: more effective management of the portfolio at a comparable or lower cost; continued benefits of co-operative housing for Canadians; and improved client satisfaction within the portfolio.

This report addresses the specific performance indicators spelled out for each of the first two objectives.

Our 2008 Client Satisfaction Survey found a high level of satisfaction with the Agency, with 95 per cent of responding co-operatives rating our service either satisfactory or acceptable. Our annual client service standards report card, published on our website, documents the Agency's continuing commitment to excellent client service and our success in delivering it in the year 2009.

As before, this report compares our clients' status and the results they demonstrated last year with those achieved earlier. In most sections of this report, 2007 is used as the base year; it is the first year for which the Agency has comprehensive data for all regions. The area of compliance is an exception to this practice. Because the items the Agency identifies as compliance variances were significantly reassessed in 2008, a comparison with 2007 results would not be useful. We therefore compared the compliance status of the portfolio at the end of the most recent year with that at the end of 2008.

2009 Portfolio Overview

Portfolio Facts & Figures

Total number of co-ops in the dataset: 504

Distribution by Program:		
S27/61	54	11%
S95	305	61%
FCHP (ILM)	124	25%
UN/PEI NP*	6	1%
Multiple	15	3%
*excluded from program-related charts		
Distribution by Region:		
Alberta	50	10%
B.C.	176	35%
Ontario	268	53%
PEI	10	2%
Distribution by Management Model:		
Management Company	195	39%
Paid Staff	214	42%
Bookkeeper (Paid) Only	58	12%
Volunteer Only	37	7%

This report draws on data received through Annual Information Returns filed with the Agency for fiscal years ending between August 2008 and July 2009[1] and validated by January 15, 2010. More information on the dataset appears in Appendix A.

The distribution by program, province and management model of the 504 housing co-operatives that make up the dataset is representative of the full Agency portfolio.

Compliance with Operating Agreements

The purpose of the Agency's compliance-management program is to ensure that public funds expended under the co-operative housing programs are used as intended and properly accounted for. The backbone of our approach is the annual compliance review, carried out following the receipt and validation of each co-op's Annual Information Return.

The Agency classifies variances according to the following criteria:

Breach: an operating- or workout-agreement compliance failure having an impact on the viability of the co-operative in the short term or that could result in public funds committed for the program being misused or being perceived to have been misused.

Material compliance variance: an operating- or workout-agreement compliance failure that does not threaten the viability of the co operative in the short term but that, if left unresolved, could have an impact over the longer term; the compliance failure will not result in public funds committed for the program being misused or perceived as being misused.

Minor compliance variance: a variance from the operating or financial workout agreement or program guidelines that neither has an impact on the co-operative's short- or long-term viability nor results in public funds committed for the program being misused or seen to have been misused.

1. Throughout this report, except where the context otherwise requires, "2009" refers to a year ending any time between August 1, 2008 and July 31, 2009.

The objectives set out in the Agency's agreement with CMHC make reference to improving levels of compliance with operating agreements across the portfolio:

- **Increased program knowledge within the portfolio, as evidenced by increased compliance with project operating agreements**

Status:
IMPROVING

At the end of 2009, 73 per cent of housing co-operatives in the dataset were fully compliant with their program and, where applicable, their workout-agreement obligations, up from 69 per cent at the end of 2008. Table 1 below, which provides a breakdown of the numbers and percentage of co-operatives with variances by broad class, indicates that there has also been an improvement in the severity of compliance failures. Seven per cent of co-operatives were in breach of their agreements at the end of 2009, down from ten per cent a year earlier, and 13 per cent were found to have material variances (2008: 14%). (As discussed further on, there is overlap between these two categories.)

Readers should note that the table does not distinguish between operating-agreement variances and policy variances, resulting in an overstatement of the extent of operating-agreement non-compliance. Nearly nine per cent of all variances outstanding at the end of 2009 related to CMHC's Net Operating Revenue Policy. Compliance with this policy, which the Agency strongly encourages, is not an operating-agreement obligation.

In order to facilitate comparisons, some of the compliance variances noted in the 2008 report have been reclassified for this review to conform to the Agency's current classification system.

Table 1: Co-operatives Not in Full Compliance

	Number of Co-ops		Percentage of Portfolio*	
	2008	**2009**	**2008**	**2009**
Total Clients not in Full Compliance	**155**	**138**	**31%**	**27%**
Co-operatives with Agreement Breaches	49	33	10%	7%
Co-operatives with Material Variances	68	68	14%	13%
Co-ops with Minor Variances	98	90	19%	18%

* percentage of co-operatives in the dataset that show a variance of this kind

We should note here that some clients are out of compliance with more than one obligation, manifesting any combination of variances from a severe breach to a minor variance, and a single client may appear in more than one of the categories above. As a comparison with Table 2: Compliance Variations by Type on the next page reveals, 249 variances were associated with 138 co-operatives, while the total number of variances in each category exceeded the number of co-ops with variances of that severity.

Table 2: Compliance Variances by Type
(Listed by order of incidence in 2009)

	No. 2008	No. 2009
Breaches		
Subsidy-Surplus Fund Breaches (Return of Excess Income-Tested Assistance, Allocation of Earnings)	17	16
Mortgage Arrears	13	8
ITA Reconciliation More than 3 Months Overdue	12	6
Required Percentage of Subsidized Members not Met for Two Consecutive Years	6	4
Audited Financial Statements More than 3 Months Overdue	5	3
Workout Agreement Breaches	1	3
Annual Information Return More than 3 Months Overdue	4	2
Tax Arrears	2	1
Total Breaches	**60**	**43**
Material Variances		
Capital Replacement Reserve Variances (Contribution Rate, Funding, Permitted Investments, Spending from Fund on Ineligible Items)	67	62
Failure to Verify Incomes at Required Intervals	6	10
Material Workout Agreement Variances	4	8
Other	2	4
Total Material Variances	**79**	**84**
Minor Variances		
Non-application of Net Operating Revenue Policy	27	22
Capital Replacement Reserve Variances (Allocation of Earnings, Spending from Fund on Eligible Items without Advance Approval)	11	20
Minor Workout Agreement Variances	22	19
Audited Financial Statements Less than Three Months Overdue	18	13
ITA Reconciliation Less than 3 Months Overdue	17	13
Annual Information Return Less than 3 Months Overdue	11	8
Other		8
Errors in Setting the Assisted Housing Charge	8	7
Subsidy-Surplus Fund Variations (Permissible Investments, Funding)	14	5
Security-of-Tenure Fund Contribution not Made in Full	11	4
Failure to Observe Income Ceilings/Ingoing Incoming Limits	5	3
Total Minor Variances	**144**	**122**
Total Variances and Breaches	**283**	**249**

Note: Variances for 2008 have been reclassified to conform to the Agency's current compliance classification system.

- **Stable and, over time, improved levels of operating-agreement compliance within the portfolio, as evidenced by a decline in the number of operating agreement breaches and material compliance variances**

Status: IMPROVING

As shown in Table 2 above, agreement breaches fell from 60 at the end of 2008 to 43 at the end of 2009. Although the proportion of clients with material variances fell, the total number of these variances rose from 79 at the end of 2008 to 84 a year later. Taken together, however, there was a decline in the total incidence of breaches and material variances,

- **Fewer co-operatives in the portfolio in default of their financial obligations, as evidenced by fewer instances of mortgage or property-tax arrears**

Status: IMPROVING

At the close of 2009, the Agency saw eight co-operatives with mortgage arrears, a significant decline from 14 in 2008. Tax arrears were essentially flat, declining from two in 2008 to one in 2009.

Portfolio Risk Profile

Each year, the Agency performs a comprehensive risk assessment of every co-operative in our portfolio. We assign a composite risk rating that reflects our evaluation of its current health and future prospects, based on separate assessments of its financial strength, current financial performance and physical condition, all viewed in the context of the market environment and other risk factors, such as the sufficiency of the co-op's capital replacement reserve. Although strongly informed by the results of standardized tests performed for each client, the rating is ultimately judgement based. As appropriate, we will adjust it over the course of the year in response to external developments or to actions the co-op takes. Possible risk ratings of Low, Moderate, Above Average and High are defined in Appendix B: Definitions of Composite Risk Ratings.

Five indicators of success set out in the Agency-CMHC agreement are associated with the risk profile of the portfolio:

- **Increased awareness by co-operatives of their own performance, as evidenced by an improvement in the overall risk profile of the portfolio**

Status: IMPROVING

The chart below compares the distribution of composite risk ratings as at January 15, 2010 with ratings at the end of 2007. We note a modest improvement in the overall risk profile of the Agency's portfolio: co-operatives with a rating of Above Average or High comprised 56 per cent of the dataset at the end of 2009, down from 62 per cent in 2007.

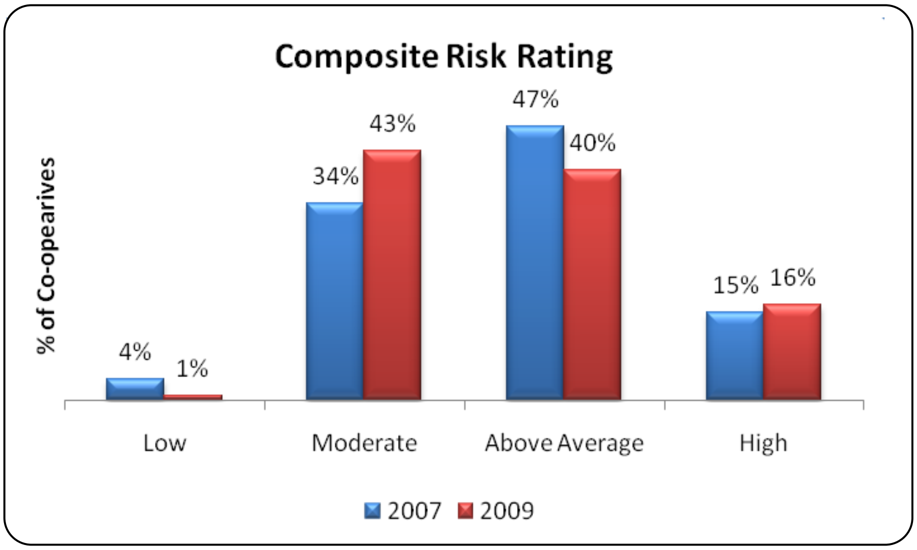


Figure 1

Obscuring slightly the progress the portfolio has made is the arrival at the Agency over the last three years of co-operatives that were initially held back by CMHC while a workout was put in place. Eighty-nine per cent of co-operatives transferred after 2007 were rated High or Above Average on arrival. We note, however, that the rating of 14 per cent of these clients has shifted from High to Above Average since their transfer to the Agency.

- **Improvement in the overall risk profile of the portfolio, as evidenced by a declining number of co-operatives rated High and a stable or growing number of co-operatives rated Low or Moderate**

Status:
NO CHANGE

Results against this performance indicator are mixed. The past two years have seen significant change within the portfolio, with only 59 per cent of Agency clients holding the same rating at the end of 2009 as at the end of 2007. Twenty-two per cent of our clients saw their rating improve over the two-year period and 19 per cent saw it weaken. The number of co-operatives carrying a High composite risk rating rose slightly. Significantly, however, there was an increase of nine percentage points in co-operatives rated Moderate risk and a decrease of seven points in those at Above-Average risk.

- **Increasing percentage of under-performing co-operatives, as determined through the risk-rating system, that are not under a workout arrangement, returned to financial health without a cash injection from CMHC Insurance or Enhanced Assistance ("underperforming" and**

“financial health” defined, respectively, as scoring Poor on either of the liquidity or net-income indicators or Fair on both and as scoring at least Fair on both the liquidity and net-income indicators, with no scheduled mortgage or property-tax payments overdue)

Status:
NO CHANGE

It is too early to report results for this indicator. The analysis is complex, incorporating a number of variables, and changes observed over a two-year time scale in individual indicator ratings may not signal a sustained trend. However, we can point to two factors that we expect will have a strong bearing on longer-term performance against this indicator: contributions to capital-replacement reserves and our clients’ gross revenue potential. Here there are positive signs, with growth to date in both significantly outstripping the rate of inflation.

- **improved financial health of the portfolio, as evidenced by an increasing percentage of co-operatives with a Good or Excellent liquidity ratio, and an increasing percentage of co-operatives with a Good or Excellent net-income ratio**

Status:
WEAKENING

The proportion of the portfolio with a healthy liquidity ratio fell slightly from 79 per cent of co-operatives in the dataset in 2007 to 76 per cent in 2009. The percentage with strong net-income ratios declined from 68 per cent to 67 per cent over the same period. As shown in the graph on the following page, clients rated Good or Excellent on both indicators fell from 63 per cent of the dataset in 2007 to 59 per cent in 2009.

The median net-income indicator score fell from 0.85 in 2007 to 0.76 in 2009—still a Good rating. Strong increases in the insured replacement cost of our clients’ properties account for much of the decline, since this value is used in the calculation of the indicator score.

The decrease in the percentage of co-operatives with a Good or Excellent liquidity ratio (79% to 76%) is the net result of five per cent of co-operatives (26) seeing their liquidity ratio improve and seven per cent (35) seeing it weaken. This net decrease also shows the influence of clients initially retained by CMHC while a workout was put in place and later transferred to the Agency: only about half of these co-ops came over with a healthy liquidity ratio. Notwithstanding these movements, the median result for the liquidity ratio remained stable at 9, a rating of Excellent.

It should be noted that the threshold levels for the net-income indicator were increased in early 2010 when we implemented improvements to our risk-rating model. The chart below was produced using the thresholds in effect when the risk assessment for each co-op was assigned.

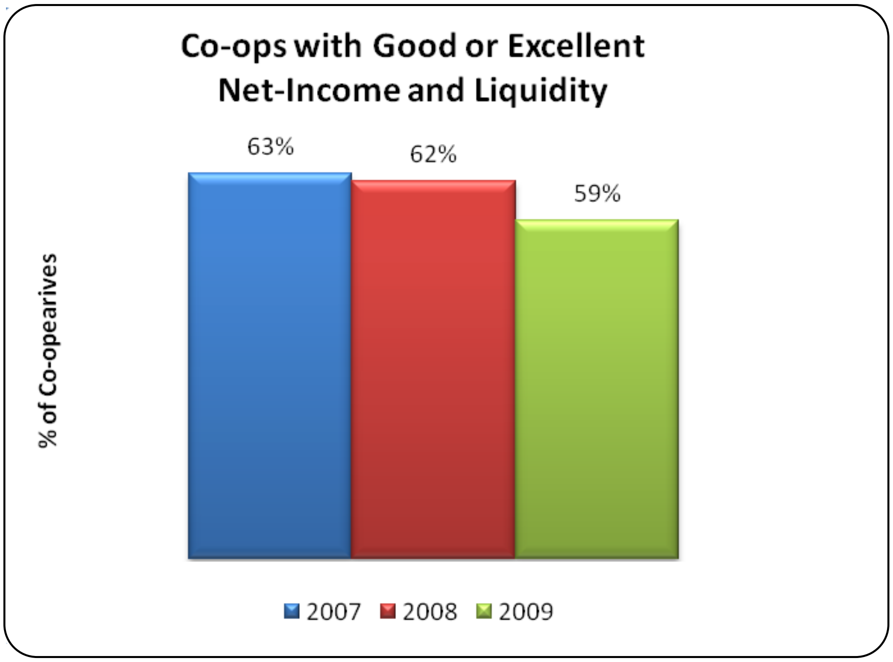
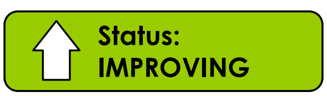


Figure 2

- **improved physical condition of the stock, as evidenced by a stable or growing number of co-operatives with a physical-condition rating of Good or Excellent and a declining number of co-operatives with a physical-condition rating of Poor**



Physical-condition ratings across the portfolio have shown a slight improvement. In 2009 three co-operatives had a Poor property score, down from five in 2007. The segment rated only Fair declined from 22 per cent of the dataset in 2007 to 18 per cent in 2009, leaving 81 per cent with a positive rating of either Good or Excellent, compared with 77 per cent two years earlier.

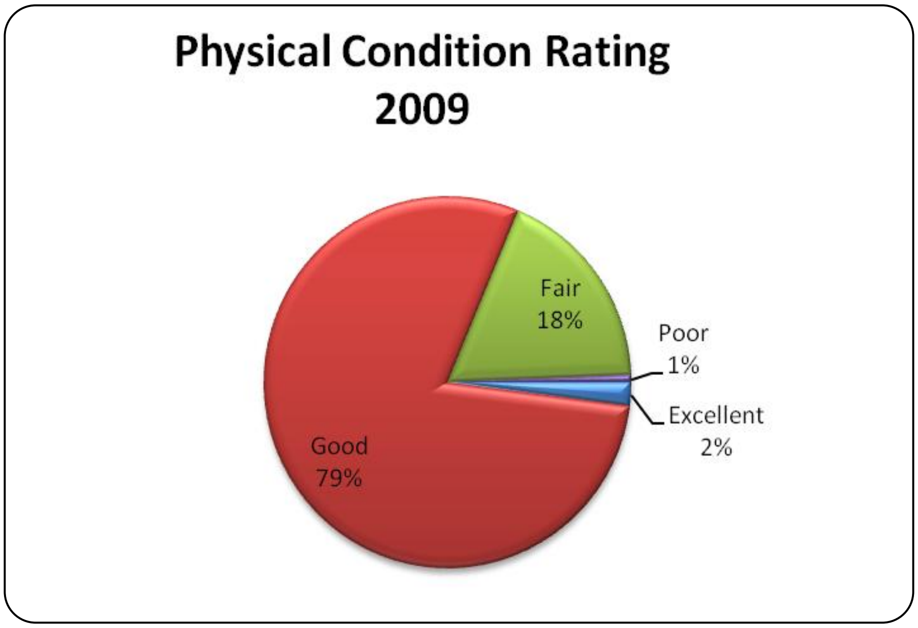


Figure 3

Client Operating Performance

Under the Agency's Agreement with CMHC, three indicators of success are associated with better operating performance for co-operatives in the portfolio. The third—improved financial health, as evidenced by an increasing percentage of co-operatives with fully funded replacement reserves—will be discussed later in this review. The other two are as follows:

- **more cost-effective use of rent-geared-to-income assistance resulting from project operating efficiencies**

Status:
NO CHANGE

Better results as to arrears, bad debts and vacancy losses, which the portfolio is now seeing, imply more effective use of rent-geared-to-income assistance because housing-charge increases are not required to replace revenue lost through these means. Working in the opposite direction is the Agency's push to have co-ops raise charges to offset operating losses, where these have arisen, or to bolster their capital-replacement reserves. (Such increases will, however, deliver long-term benefits to the portfolio in the form of improved financial health and reduced risk.) In view of these two opposing forces, we rated the portfolio as stable against this indicator.

- **improved management practices, as evidenced by reduced occupancy-charge arrears and bad-debt expenses, vacancy losses and other relevant measures**

The status of this indicator is examined in each of several sections dealing with specific elements of good management.

Occupancy-Charge Arrears and Bad-Debt Expense

Status: IMPROVING

Across the portfolio, we saw a decline from 2007 to 2009 in combined arrears and bad-debt expense, measured as a percentage of the total amount charged to occupants for housing during the year (2007 median ratio: 0.9%; 2009 median ratio: 0.8%). The improvement is most apparent in the increased percentage of the dataset with combined arrears and bad debts below 1.5 per cent and in the shrinking percentage with arrears and bad debts of three per cent or more.

The combined per-unit dollar amount of arrears and bad-debt expenses also fell during the period, as Table 3 on the next page shows. Readers should note that the maximum reported value is an anomaly, reflecting the deteriorating status of a particular co-operative where the board and management have both been replaced, at the Agency insistence, since the last AIR was filed.

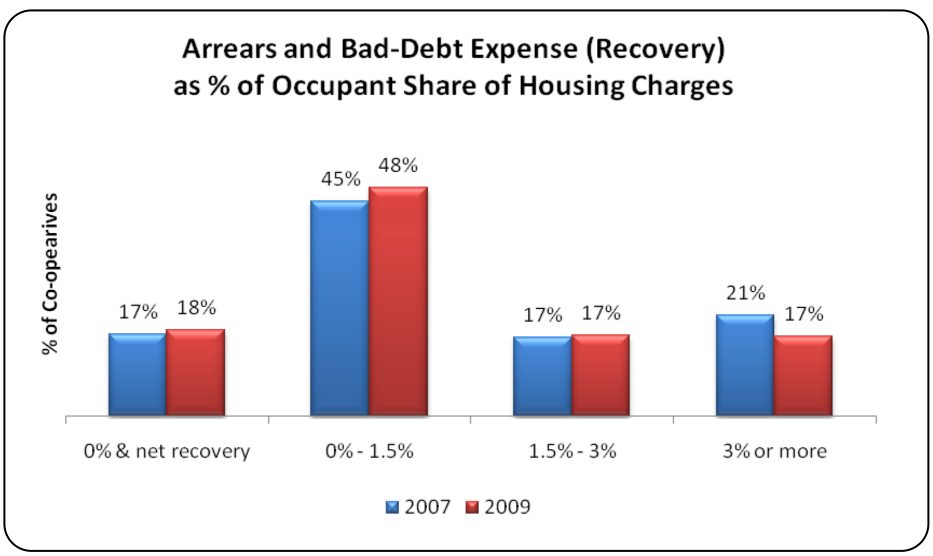


Figure 4

Table 3: Arrears and Bad-Debt Expense (Recovery) per Unit

	2007	2009
Median	$71	$61
75th Percentile	$187	$165
95th Percentile	$585	$508
Maximum	$5,130	$6,361

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2009.

Directors in Arrears

Status:
IMPROVING

We continue to see a measurable improvement in the number of co-operatives reporting directors in arrears. Between 2007 and 2009 there was a decline from 117 to 103 in the number of clients reporting one or more directors at least $100 behind with their housing charges at the co-operative's year end. Among these co-operatives, the median amount owing for individual directors in arrears fell from $589 in 2007 to $542 in 2009.

An earlier chart showed that, since our base year, clients have been making progress in reducing the rate of arrears and bad debts. The next table reveals a similar picture for co-operatives with directors in arrears: the median ratio for this subset of the portfolio of combined arrears and bad debts to total occupants' share of housing charges has improved since 2007 but, even so, is more than twice the 0.9 per cent ratio reported for all clients.

Table 4: Directors in Arrears at Co-operative's Year End

	2007	2009
Number of clients reporting directors in arrears	140	103
% of portfolio	28%	20%
Median amount of individual director arrears (averaged by co-op)	$604	$542
Maximum amount of director arrears	$8,103	$3,051
Median ratio of arrears and bad debts to occupant share of housing charges in co-ops with director arrears	2.4%	2.1%
Median ratio of arrears and bad debts to resident share of housing charges (full dataset)	1.1%	0.9%

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2009.

Vacancy Losses

Status: IMPROVING

If not controlled, vacancy losses can significantly reduce a co-operative's revenues. Although vacancy rates are clearly influenced by local rental market conditions, a sign of the well-managed co-op is that it fares better than its peers under adverse conditions. We have been pleased to see most Agency clients out-performing their local rental market.

Looking at annual vacancy loss per unit, we note an improvement: the percentage of clients with no vacancy loss rose from 27 per cent of the portfolio in 2007 to 30 per cent in 2009, while the share of those with losses above $250 per unit fell from 15 per cent to 12 per cent.

As Table 5 below shows, vacancies cost one half of the full dataset less than $33 per unit per year in 2007; the median loss fell to $28 per unit in 2009. The 75th and 95th percentiles also declined, while the largest reported loss rose. Where there were 15 co-operatives reporting more than $1,000 per unit of vacancy losses in 2007, there were only seven in 2009.

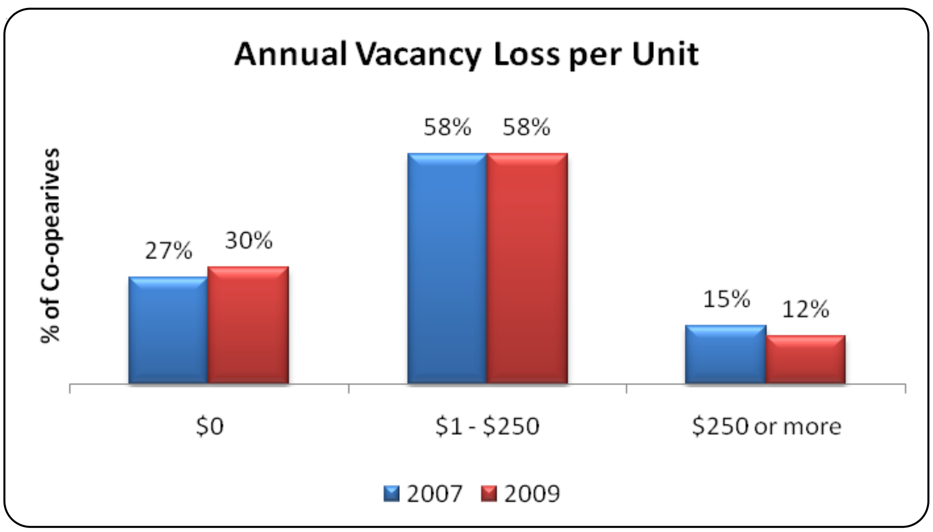


Figure 5

Table 5: Annual Vacancy Loss per Unit

	2007	2009
Median	$33	$28
75th Percentile	$133	$117
95th Percentile	$706	$470
Maximum	$3,668	$4,203

Note: Dollar amounts for 2007 have been indexed to 2009 dollars.

Vacancy loss may be further measured as a ratio of a co-operative's gross potential annual revenue from housing charges. Here too there has been improvement: the number of co-operatives with no vacancy losses at all rose from 27 per cent of the portfolio in 2007 to 30 per cent in 2009, while the number with a vacancy rate of three per cent or more declined from 14 per cent in 2007 to 11 per cent in 2009.

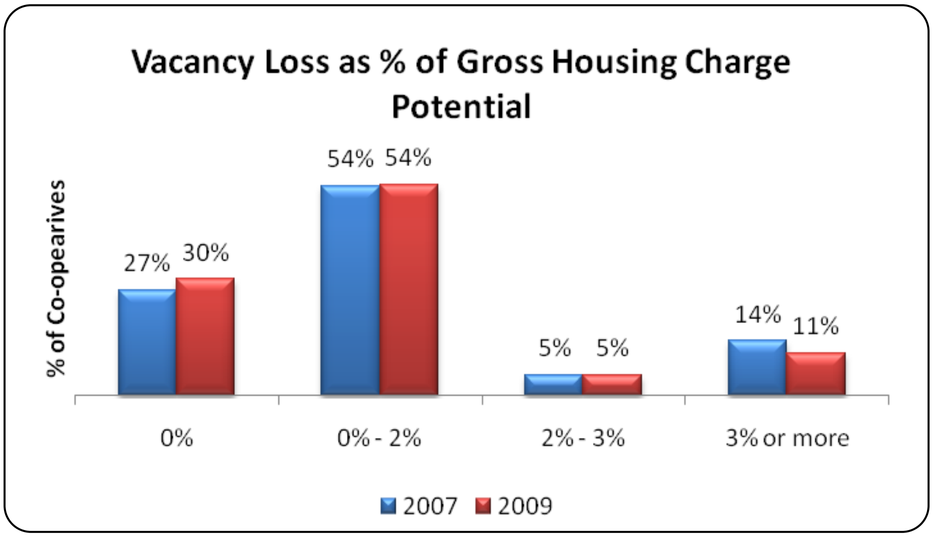


Figure 6

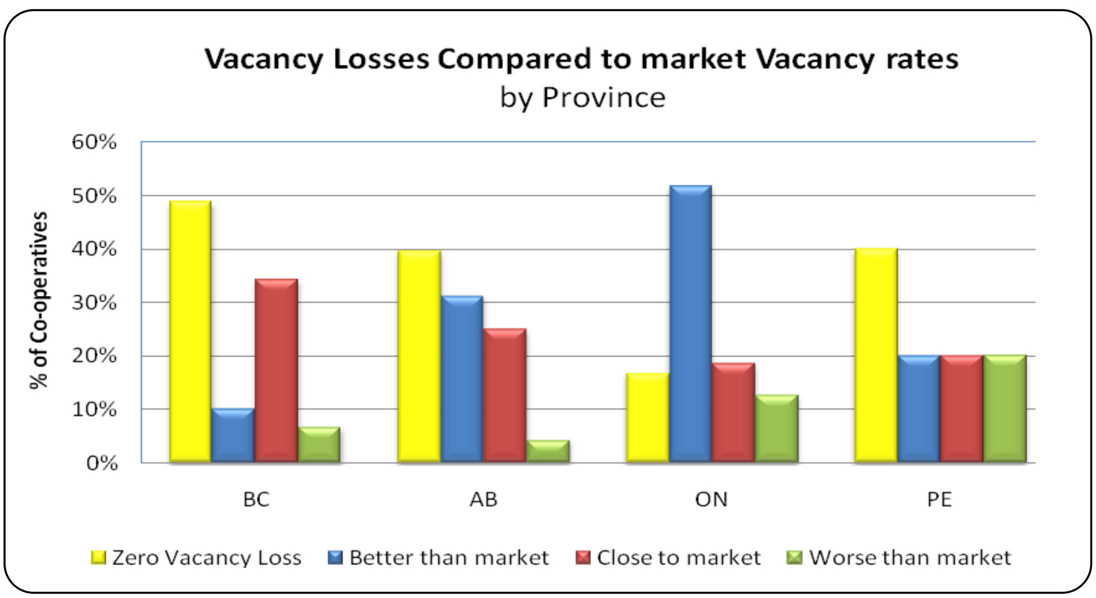


Figure 7

While, at the portfolio-wide level, the great majority of Agency clients are performing as well as or better than the surrounding market, there is considerable variation from one region to another. British Columbia stands out as the province having both the highest proportion of co-operatives without vacancy losses, while Alberta has the lowest share with worse-than-market losses. B.C. co-operatives, the vast majority of which are located in low-vacancy markets, out-performed the market much less often than did their cousins in Ontario. On the other hand, a higher ratio of PEI clients did worse than market.[2]

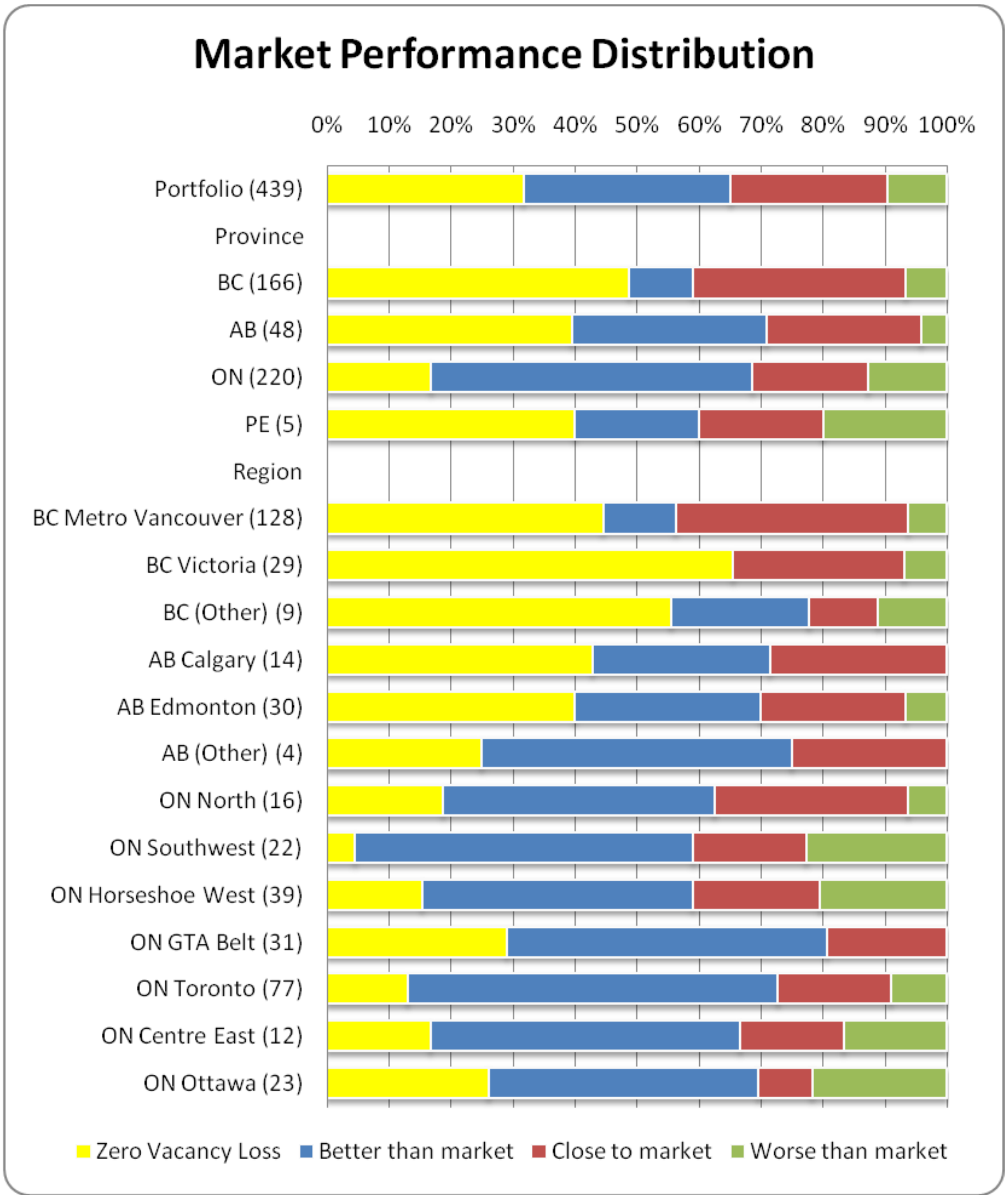


Figure 8

2. The PEI portion of the dataset is very small and these results can be expected to swing significantly from year to year.

Figure 8 shows that 32 per cent of co-operatives reported no vacancy loss in 2009, 33 per cent had some vacancy loss but performed better than the market in their area, and another 25 per cent had losses just below or above the market vacancy rate. (Note that the percentage with zero vacancy loss varies slightly from the charts above: this dataset includes only co-operatives for which detailed market data is available.) The chart also illustrates the market performance of Agency clients in each of 13 sub-regions, pointing up distinct differences among them. (Caution is advised in reviewing the results for regions with very few co-operatives.)

Insurance

Status: IMPROVING

Early on, the Agency determined the levels and types of insurance that we believed all housing co-operatives should have, viewing lack of adequate coverage as a risk factor to their operations and even their survival. The following table shows the extent to which co-operatives within the 2009 dataset met these standards at the time of their AIR filing, compared with 2007. Well aware that we cannot compel change, our relationship managers continue to press their clients to increase their insurance coverage, with notable success.

Table 6: Insurance Coverage

Coverage	Proportion of Co-ops Insured to Recommended Limit	
	2007	2009
Guaranteed-replacement-cost insurance against fire and other perils	98%	99%
Loss of housing charges coverage	76%	82%
Public liability insurance	89%	94%
Fidelity bonding	78%	85%
Directors' and officers' liability insurance	93%	97%

Spending on the Physical Plant

Status:
NO CHANGE

Figure 9 looks at spending on maintenance and capital repairs and replacements in 2009, compared with 2007. As in previous reports, we have combined these two forms of spending on the property to gain a clearer picture of the care co-operatives take of their chief asset. Given the prevalence of deferred maintenance in the portfolio, we were pleased to see that over the period the percentage of Agency clients spending at the lowest level—under $2,000 per unit per year—fell, while those spending at higher levels—$4,000 or more—grew. (Note that 2007 amounts have not been indexed for inflation to 2009.)

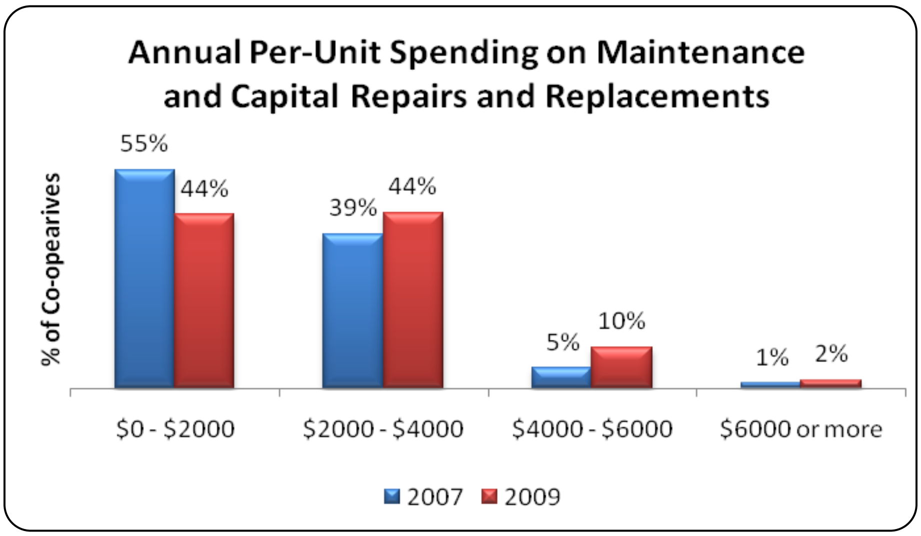


Figure 9

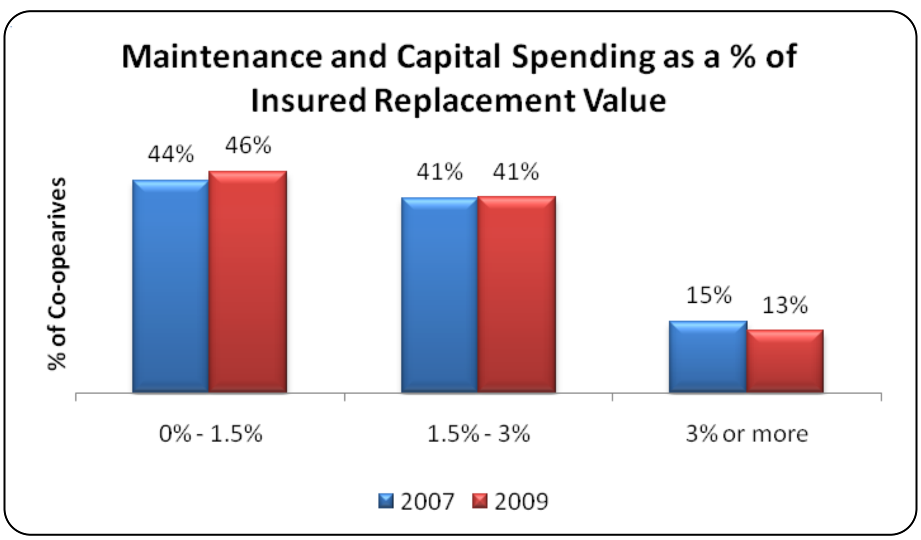


Figure 10

Figure 10, which examines maintenance and capital spending as a percentage of the insured replacement value of each co-operative's buildings and equipment, suggests that notwithstanding increased spending rates, co-ops may be losing ground. This measure helps normalize the data for different repair and construction costs, allowing us to compare results from year to year, across the country, and among various building types. Looked at through this lens, rates of investment in the physical plant appear to be falling.

Other evidence, however, suggests that insurance companies moved to update their replacement cost estimates in 2009, leading to large increases from 2007. If, in fact, the 2007 replacement values were understated, then the investment rates shown for that year in the chart are overstated relative to 2009. The apparent decline to 2009 may therefore not be real.

- **Improved financial health, as evidenced by an increasing percentage of co-operatives with fully funded replacement reserves**

Status:
IMPROVING

The Agency has been pleased to note that co-operatives are heeding our advice to contribute more to their capital-replacement reserves. As figure 11 indicates, contributions to capital reserves, including supplementary contributions from co-operatives' operating surpluses, have increased sharply since 2007. (Note that, in this graph, 2007 numbers have not been indexed for inflation to 2009). The median annual contribution per unit rose 21.9 per cent between 2007 and 2009 from $840 to $1,024 (constant 2009 dollars).

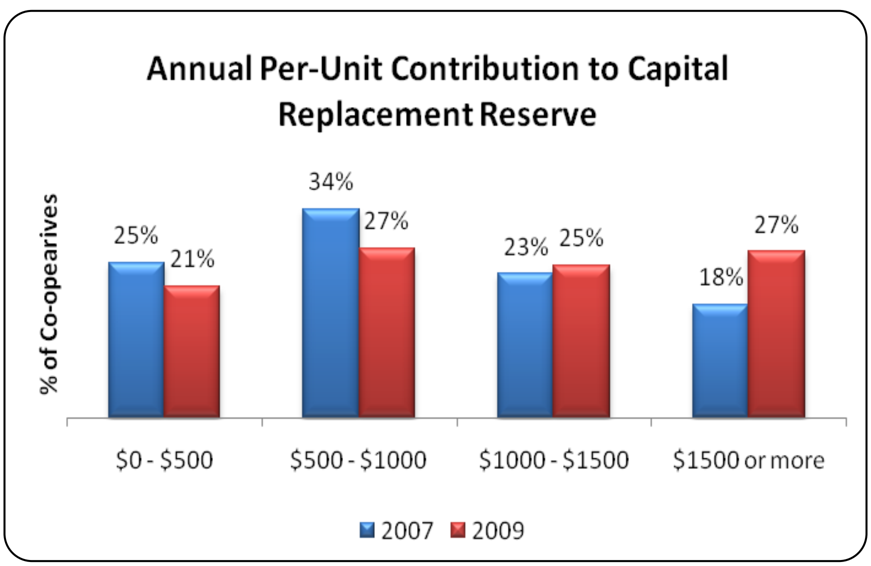


Figure 11

The Agency uses the term "replenishment ratio" to describe the extent to which a co-operative ends a two-year period having contributed at least as much to its capital-replacement reserve as it has spent. We believe that the ability and the will to replenish this reserve are at least as significant as the actual reserve balance at any one time. As figure 12 shows, over their 2008 and 2009 fiscal years a majority of the dataset (57%) more than replaced funds spent from their capital reserve fund. This result was little changed from 2007-2008 (60%).

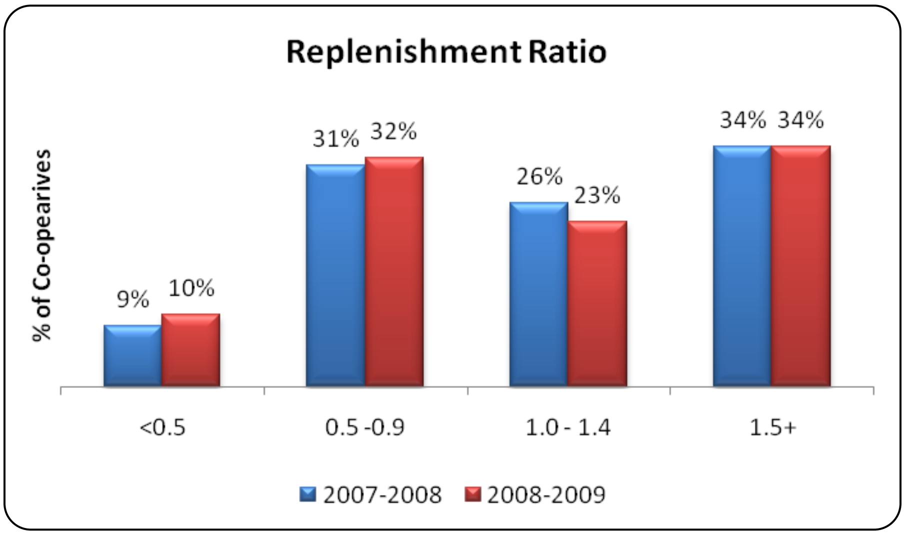


Figure 12

Turning to the question of whether the reserves are fully funded, we see that 91.5 per cent of all Agency clients in the dataset had fully funded reserves in 2009, up very slightly from 91.2 per cent in 2007. (In this context, a fully funded reserve is one where the fund liability is fully backed by cash and investments.) However, the median funding rate among those whose reserves were not fully funded stood at 59 per cent, down from 64 per cent two years earlier. As Table 7 reveals, co-operatives without financial workouts did better on this test of financial fitness, with 94 per cent reporting fully funded reserves and a median funding rate of 68 per cent for the remaining six per cent. While the proportion of co-ops with workouts holding fully funded reserves rose noticeably from 2007 to 2009, from 76.7 to 81.1 per cent, the median funding rate for the one in five whose reserve was not fully funded fell from 40 to 22 per cent.

Table 7: Funding of Capital Replacement Reserve

	% of Co-ops with Fully Funded Capital Reserve		Median % of Funding for Reserves not Fully Funded	
	2007	**2009**	**2007**	**2009**
Co-ops without workout	94.2%	93.9%	76%	68%
Co-ops with workout	76.7%	81.1%	40%	22%
All co-ops in dataset	91.2%	91.5%	64%	59%

Co-operatives with Financial Workouts

Three indicators of success set out in the Agency's agreement with CMHC are associated with terminations and workouts for co-operatives in the portfolio:

- improved cost-effectiveness of the programs, as evidenced by fewer losses to the stock from mortgage defaults and lower total costs associated with project failures and workouts

- increased success of financial workouts, as evidenced by fewer repeat workouts

- fewer project terminations

Because a workout unwinds slowly over time, it is too early for the Agency to report on the cost of mortgage defaults and workouts, against which we have no reliable baseline, as yet, to measure our results. Similarly, time will tell whether co-operatives now undertaking a first workout under our supervision will require a second workout at some future time. However, we can report that in the past three years, no project in the portfolio has been terminated.

Looking Ahead to 2010

While change comes slowly to our clients as a group, we are pleased to see that the financial health and performance of the portfolio is improving in several respects against the 2007 baseline. We expect to see further improvement.

At the same time, the portfolio is aging and a growing number of Agency clients now, or soon will, need to borrow money to carry out major repairs to their buildings. Because their properties were funded initially with public support, a moral obligation for stewardship devolves on everyone who has a hand in the co-operative housing sector, from the co-operatives themselves to CMHC, which has carriage of the programs and on whose behalf the Agency works. We are committed to using every means at our disposal to help our clients improve their operations, take excellent care of their property and fulfill the purpose for which they were brought into being.

To that end, in 2010 the Agency has made some changes and expects to make more. We have reorganized our workforce to create a separate group that focuses its attention on co-operatives at risk of default or in need of secondary financing for repairs, as well as on those that already have financial workouts in place. During the three full years of the Agency's working life, we have learned a great deal. We intend to turn our attention away neither from the most troubled co-operatives nor from those whose excellent practices other clients would benefit from emulating.

Appendix A:
Technical Data

The 2009 Dataset

The information presented in this report is drawn from Annual Information Returns received and validated by the Agency by January 15, 2010 for fiscal years ending between August 2008 and July 2009. The data were organized by co-operative and by "study year," i.e., a single fiscal year ending within the period indicated above. Static values, such as province, were attached to co-operatives and set out in a co-op table, while attributes that can vary from year to year, such as management type, were assigned on a study-year basis.

The dataset is drawn from client information from 519 co-operatives. At January 15, 2010 the Agency had received and validated AIRs from 504 of these (31,623 units). These co-operatives comprise the 2009 dataset. The 2008 dataset includes 497 co-ops with 30,548 units and the 2007 dataset 500 (30,668 units). Some clients formed part of the dataset for each of these three years; others only for two; and a small number for only one year.

Because of the particular features of the deep-subsidy programs, the risk rating for these co-operatives (UN/PEI NP Programs) is not relevant in certain circumstances. We have therefore excluded these six co-operatives from the datasets for calculations that involve composite risk ratings.

Of the 15 clients for which 2009 data were unavailable as of January 15, 2010, three were carrying composite risk ratings of Low or Moderate, eight had ratings of Above Average and four ratings of High. In the Agency's view, their inclusion in the 2009 dataset—had their data been available—would not have led to materially different findings. The table below shows the actual distribution of risk ratings within the 2009 dataset (excluding the deep-subsidy co-operatives), compared to a theoretical distribution with the 15 co-ops included, assuming their risk ratings remained unchanged from 2008.

Composite Risk Rating	2009 Actual	%	2009 Theoretical	%
Low	4	1%	5	1%
Moderate	214	43%	216	42%
Above Average	197	40%	205	40%
High	82	16%	86	17%
Total	497	100%	512	100%

Constant Dollar Amounts

Except where noted in the report, dollar amounts from previous years have been indexed to 2009 constant dollars using the rate of change of the annual average of the Consumer Price Index (CPI) for Canada (all-items, not seasonally adjusted, as published by Statistics Canada). For calculations involving portfolio-wide numbers such as medians, the Annual Average CPI for those years was used. In calculating values relating to specific clients, the CPI values for the month that corresponds to the co-operative's fiscal year end were used.

Appendix B:
Definition of Composite Risk Ratings

Low Composite Risk: *A strong, well-managed housing co-operative.* The combination of its excellent physical condition, accumulated earnings and reserves, position in the marketplace and current capacity to contribute to its replacement reserve make it resilient to adverse market and economic conditions. Provided it continues to be well managed, the co-operative should be able to fund needed repairs and replacements and meet its debt obligations for the foreseeable future, without external support.

Moderate Composite Risk: A sound, generally well-managed housing co-operative. It is in good or better physical condition, has access to adequate cash resources and is able to make an adequate or better contribution from earnings to its replacement reserve, after covering its debt service and all normal operating expenses. The co-operative should be able to remain in sound financial and physical condition, provided it continues to be well managed and economic or market conditions do not deteriorate significantly. It does not require external support or intervention

Above-Average Composite Risk: The co-operative has issues that warn of emerging or potential financial difficulties. One or more of the following conditions is present: the co-operative is in fair, but not poor, physical condition; its earnings are sufficient to cover current expenses but do not allow for an adequate contribution to the replacement reserve; its combined accumulated earnings and replacement reserve are low and access to other cash resources, such as member shares or deposits, is limited; or vacancy losses or housing charge arrears are significantly above the median level for its peers. No indicators of high risk are present, but the co-operative may be challenged in funding needed capital repairs or meeting its obligations in the future, especially if the market is weak or weakens. It will require effective management and some ongoing monitoring and support.

High Composite Risk: *The co-operative is in financial difficulty or is poorly managed.* One or more of the following conditions is present: the co-operative's earnings are insufficient to cover its debt service and current expenses; it has insufficient revenue after covering its debt service and current expenses to allow an adequate contribution to the replacement reserve; it has an accumulated operating deficit, a low or non-existent replacement reserve and limited access to other cash resources, such as member shares or deposits; vacancy losses or housing charge arrears are unusually high; the co-operative has urgent or major repair requirements that it is not able to fund; it is behind with its mortgage payments or property taxes; it has suffered a major loss of assets through fire or malfeasance against which it was not adequately insured; or it is suffering from a failure of governance. Without intervention and continuing support, and possibly a financial workout, the co-operative is at risk of failure.

Appendix C:
Median Performance Data

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss		Ratio of Combined Arrears and Bad Debts to Occupant Share of Housing Charges		Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements *	
	2007	**2009**	**2007**	**2009**	**2007**	**2009**	**2007**	**2009**
Full Dataset	0.4%	0.3%	$33	$28	0.9%	0.8%	$1,911	$2,153
Program								
S27/61	0.1%	0.2%	$12	$14	0.7%	0.6%	$1,882	$2,459
S95	0.3%	0.25%	$29	$24	0.7%	0.6%	$1,986	$2,233
FCHP (ILM)	0.7%	0.6%	$69	$61	1.2%	1.2%	$1,751	$1,808
Urban Native/PEI NP **	NA	NA	NA	NA	6.9%	4.7%	$3,338	$2,852
Multi-Program	1.0%	0.8%	$125	$75	1.3%	1.8%	$2,359	$2,941
Province								
British Columbia	0.2%	0.1%	$15	$5	0.4%	0.2%	$1,740	$2,146
Alberta	0.3%	0.2%	$28	$19	0.7%	0.8%	$1,541	$1,798
Ontario	0.7%	0.6%	$66	$61	1.4%	1.3%	$2,102	$2,230
PEI	0.4%	0.9%	$27	$76	1.0%	1.4%	$1,637	$1,652
Management Model								
Paid Staff	0.4%	0.4%	$34	$40	1.1%	1.1%	$2,107	$2,285
Management Company	0.5%	0.4%	$45	$36	1.0%	0.8%	$1,919	$2,182
Bookkeeper (Paid) Only	0.2%	0%	$21	$0	0.5%	0.2%	$1,688	$1,811
Volunteer Only	0.0%	0%	$0	$0	0.5%	0.1%	$1,497	$1,708
Co-ops with Workout	2.5%	1.5%	$243	$137	2.8%	1.9%	$1,634	$1,628
Co-ops without Workout	0.3%	0.2%	$24	$21	0.7%	0.6%	$2,013	$2,309

* Excludes those capital expenditures amortized to operations over time
** There is no regular occupancy charge in these programs, which are fully occupied on a rent-geared-to-income basis.

Notes: Dollar amounts for 2007 have been indexed as constant dollars to 2009. The variation in a median between 2007 and 2009 may be due in part to a change in the dataset, rather than wholly to an evolution within the portfolio, especially for the smaller subsets.

Appendix C:
Median Performance Data (continued)

	Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution		Annual Per-Unit Administration Spending	
	2007	**2009**	**2007**	**2009**	**2007**	**2009**
Full Dataset	$3,107	$2997	$840	$1,024	$590	$631
Program						
S27/61	$3,266	$3,355	$961	$992	$507	$552
S95	$3,507	$3,546	$1,106	$1,246	$579	$632
FCHP (ILM)	$2,099	$2,018	$503	$592	$599	$625
Urban Native/PEI NP	$2,495	$1,546	$590	$575	$1,028	$1,047
Multi-Program	$2,850	$1,740	$839	$896	$1,008	$714
Province						
British Columbia	$3,151	$2,984	$957	$1,039	$391	$397
Alberta	$2,195	$3,153	$678	$1,016	$362	$417
Ontario	$3,312	$3,156	$868	$1,030	$793	$829
PEI	$1,615	$1,385	$434	$433	$698	$707
Management Model						
Paid Staff	$3,272	$3,386	$841	$1,079	$814	$817
Management Company	$2,810	$2,578	$819	$966	$529	$533
Bookkeeper (Paid) Only	$2,965	$4,216	$1,006	$1,203	$301	$224
Volunteer Only	$3,586	$2,675	$877	$893	$107	$103
Co-ops with Workout	$916	$947	$484	$495	$673	$664
Co-ops without Workout	$3,392	$3,448	$984	$1,171	$560	$612

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2009.