

Calgary Housing Company 2018 Annual Report

EXECUTIVE SUMMARY

This is the annual report presentation to the City's Audit Committee from the Audit and Risk Management (ARM) Committee of Calhome Properties Ltd. operating as Calgary Housing Company (CHC).

This report, attachments and presentation provide a comprehensive response to the letter from the Audit Committee chair dated 2019 May 7 which requested the following items provided:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy;
2. Report on CHC's key operating and strategic risks including trends and risk management plans and processes;
3. Analysis of the top three financial and/or operating risks that in CHC's opinion would impact the City of Calgary and/or be of concern to the City's Audit Committee;
4. Report on internal controls including information technology and systems;
5. Most recent management letter including management responses as appropriate; and
6. Audit Committee 2019 Work Plan.

In summary, CHC has established good governance practices including recruitment processes, has demonstrated good financial performance in 2019. There have been no internal control issues identified through the external audit.

CHC is still facing significant risks. The highest identified risks that may affect CHC and therefore the City of Calgary as shareholder are: insufficient funds, uncertain funding and third party owned assets managed by CHC.

RECOMMENDATION:

That the Audit Committee receives the presentation with respect to Report AC2019-0645 for the information.

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012 states that Audit Committee is responsible for: "overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."

Section 4(1)(i)

BACKGROUND

This report responds to the letter dated 2019 May 7, sent to the Chair of Calgary Housing Company's (CHC) Audit and Risk Management Committee. This report, attachments and presentation provide a comprehensive response to the letter from the Audit Committee chair.

The annual reporting process is intended to be an ongoing dialogue between The City and CHC. It is anticipated the annual report will assist with developing further understanding of CHC's governance approach.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

This section contains CHC's responses to the six items that are requested to be included in the annual report. Further details are also provided in the attachments noted below.

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy

1.1. Governance Structure, Succession Planning and Recruitment Process

CHC is a wholly-owned subsidiary of The City of Calgary (The City) and established under the *Business Corporations Act* as a non-profit corporation. CHC is governed by a Board of Directors, appointed by City Council which represents The City as the sole shareholder of the company. In 2018 and 2019, CHC's unanimous shareholders agreement was changed to allow between 2 to 3 Council members, an appointee from the City's Treasurer's office, the Director of Calgary Neighbourhoods and between 6 to 8 citizen representatives to be appointed to the Board of Directors. In 2018, CHC's unanimous shareholders agreement was changed to provide authority to the CHC Board of Directors to elect any one of its members as Chairperson of the Board of Directors (previously the Chairperson had to be a Council member). CHC's Administration is led by a President who also holds the role of Director of the Calgary Housing Business Unit.

CHC manages properties and programs on behalf of The City, the Province of Alberta, and itself. CHC, in its present incarnation, was formed in 2001 when Calhome Properties Ltd. took on the assets and liabilities of Calgary Housing Authority and assumed the trading name of CHC.

The Province appoints and authorizes CHC to manage, administer and maintain the social housing portfolio under a Ministerial Order and the Alberta Housing Act. CHC receives its operating funding from provincial government operating subsidies and through rental revenues and does not depend on tax revenue for its funding. Under the existing agreement, The City is responsible for covering 10% of The City-owned social housing deficit and this amount is currently funded through tax support. The surplus contribution returned to The City for City Partnership and Corporate Properties residential portfolios combined was \$1.5M in 2018.

The properties that CHC manages are owned by the Province, The City and Calhome Properties Ltd. CHC provides homes for approximately 25,000 tenants in CHC managed properties or with private landlords through the rent supplement program. In addition to ownership, properties are divided across one of seven portfolios. Depending on the portfolio, CHC may be subject to different legislative or operating agreement requirements, such as the Alberta Housing Act or a specific agreement relating to that portfolio.

During 2017, the Federal Fixed Subsidy portfolio (previously subsidized by CMHC), merged with the Provincial Fixed Subsidy portfolio as a result of a reorganization where

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the subsidy for both portfolios is received by the Province. This decreased the number of portfolios that CHC operates from nine in 2017 to eight in 2018. Subsequently, the Provincial Fixed Subsidy portfolio also merged with the Calhome owned portfolio. This changed the number of portfolios from eight down to seven in 2018.

CHC reports to a Board of Directors. The Board is supported by three committees and a task force, each having a specific mandate and oversight responsibility. They are as follows:

- Audit and Risk Management Committee
- Government Relations Task Force
- Development and Asset Management Committee
- Governance Committee

The Governance Committee is responsible for succession planning and recruitment. These processes are based on Board best practices and identifying appropriate qualifications based on a skills matrix.

For further details on CHC's governance structure, succession planning and recruitment refer to Attachment 2 of this report.

1.2. Recent Financial Highlights

The following section contains recent financial highlights extracted from the 2018 statement of financial position and statement of operations.

Statement of Financial Position

Cash: The cash balance at the end of 2018 has risen from the prior year to \$38.9 million. It is worth noting that \$27.9 million (see note 3 in financial statements) of this balance is restricted for items such as tenant security deposits, advance government funding, replacement reserve funding and deferred capital contributions.

Mortgages Payable: CHC had \$12.6 million in outstanding mortgages at December 31, 2017. Over 2018, CHC repaid \$2.5 million in long-term debt. At December 31, 2018 CHC had \$10.1 million in mortgages payable.

Tangible Capital Assets: Tangible Capital Assets decreased to \$96.9 million as at December 31, 2018 from \$99.7 million in 2017. The decrease was mostly due to asset amortization.

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Statement of Operations

REVENUE

Rent Revenue: Rent revenue was \$48.2 million for the year ended December 31, 2018, which is consistent with the previous year. Rent revenue is being affected by lower regulated rent-geared-to income (RGI) rents.

Rent Supplements: The rent supplement programs provided \$19.1 million in revenues and there is a corresponding expense under rent supplement payments as this is a flow through program and CHC receives funding to offset salary and administration costs to deliver this program.

EXPENSES

Administration: CHC incurred \$3.9 million in administration costs for the year ended December 31, 2018. These costs, excluding the direct charges to certain portfolios, are allocated based on the number of units in each portfolio. CHC realized \$0.3M savings from lower salary expenses due to position vacancies and strategic workforce planning.

Maintenance: Maintenance expenses were \$35 million for the year ended December 31, 2018. Actual maintenance expenses were higher than budget driven by additional suite renovation work performed on provincially-owned properties. These costs were incurred to address a backlog of accumulated work requirements. Overall, CHC performed necessary suite renewals and maintenance on 2,156 units during 2018, in addition to work performed on common areas, fencing, and other preventative maintenance measures.

SURPLUS

CHC reported a surplus of \$3.8 million after returning \$1.5 million to The City from the operation of The City's mixed-income portfolios. The CHC surplus was consistent with the previous year.

Capital Expenditures

Overall, 2018 actual capital expenditures were \$4.7 million lower than the budget of \$5.2 million primarily due to the delay in renovating the commercial space of the East Village Place project. A project management agreement for the space has been signed in the summer of 2019 and work has commenced in the fall of 2019.

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1.3. Key 2019 Initiatives / Strategies

CHC's Strategic Plan was extended by two years at CHC's Annual General Meeting in June 2018 and is now in place until 2022. A summary of CHC's key priorities and objectives as well as specific 2019 initiatives are identified as follows:

Priority I: Deliver quality service to clients that contribute to their individual and community wellbeing

Objective 1: Take a client-centric approach to delivering safe and affordable housing

Objective 2: Create or connect clients with programs and services that contributes to their wellbeing

Priority I 2019 Initiatives:

CHC will work to enhance its programs and services by developing a client centric framework to create positive outcomes. CHC will develop and implement an onboarding program that will build capacity in CHC tenants and increase pride in ownership. In addition, CHC will develop an outcome focused partnership strategy that will identify partners to provide appropriate tenant programs and services to improve housing stability and individual wellbeing.

Priority II: Achieve operational and financial sustainability

Objective 1: Maximize the performance value of assets

Objective 2: Increase financial sustainability

Priority II 2019 Initiatives:

CHC will work to refine its Strategic Asset Management Program and Asset Management Plan to incorporate a level of service framework that improve the management of asset and financial risks as well as customer experience. Furthermore, it will establish a coordinated approach to environmental sustainability initiatives to decrease operational costs. CHC will advance the sustainability program to include factors such as operational costs, building condition assessments, marketability, etc. to effectively manage its portfolio.

Priority III: Realize organizational excellence

Objective 1: Increase organizational efficiency and effectiveness

Objective 2: Engage employees in a safe and empowering environment

Objective 3: Implement innovative and strategic business practices

Objective 4: Advance relationships with stakeholders

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Priority III 2019 Initiatives:

CHC will achieve organizational excellence via efficiency and effectiveness in people, processes and technology while continuing to provide quality service to our customers and enhancing relationships with partners. Continuous improvement will be achieved through: implementation of the Enterprise System Software (ESS) program, which is scheduled to “go-live” on November 12, 2019, adoption of an enhanced supply chain operating model, performance measurement, creation of CHC property-specific emergency response plans, and application of best practice project management methods.

2. Report on CHC’s key operating and strategic risks including trends and risk management plans and processes

On 2011 May 27, the Board approved the adoption of the City’s Integrated Risk Management (IRM) Model as a model for use by CHC and directed Administration to annually inform the Board through the ARM Committee regarding the current risk status of the company. The risks identified in this report are integrated in the Calgary Housing business unit risk register in alignment with The City of Calgary IRM model and presented to the City Audit Committee.

Since the approval by the Board and implementation of the City’s IRM Model, Administration has taken the necessary steps to implement and sustain the IRM Model.

Administration has provided annual risk reports in each year following the original adoption of The City’s IRM model.

2.1. Financial Risk: Insufficient Funds

CHC has insufficient operating and capital reserve funds to support projected lifecycle, maintenance, redevelopment and emergency needs. However, CHC has implemented an Asset Management Program and through the Sustainability Project, it is developing a framework to help address these issues and improve informed decision making.

2.2. Political Risk: Uncertain Funding

CHC relies on government transfers to fund Provincially-owned and City-owned social housing portfolios under its management. Funding for these portfolios is discussed in the operating agreements and CHC is required to obtain annual budget and funding approvals from the Government of Alberta. Annual fluctuations in provincial funding commitments as well as the expiration of the operating agreements in the near future pose a major risk to the financial sustainability of Provincially-owned and City-owned

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social housing portfolios. The current operating agreements expire between 2021 and 2024. Without new operating agreements, there is the risk that the City will become responsible to fund the portion of the operating deficit that the Province currently funds in the City-owned social housing portfolio, which is estimated to be \$496K in 2021 and \$6.2M in 2024.

2.3. Infrastructure Risk: Third party owned assets managed by CHC

Current operating agreements between CHC and The City and CHC and the Government of Alberta do not identify asset management within the scope of CHC contracted services. CHC Administration has approached both The City of Calgary and the Government of Alberta to provide a disciplined basis for asset condition assessments and capital investment prioritization based on an agreed risk and level of service criteria.

3. Analysis of the top three risks that in CHC's opinion would impact the City of Calgary and/or be of concern to the City's Audit Committee

Attachment 4 of this report provides an overview of the principal risks that could affect the achievement of CHC strategic priorities and plans. The highest identified risks that may affect CHC and therefore the City of Calgary as shareholder are: insufficient funds, uncertain funding and third party owned assets managed by CHC as noted above.

For further details on the top risks, refer to Attachment 3 of this report.

4. Report on internal controls including information technology and systems

In 2018, CHC used the COSO 2013 framework to perform an evaluation of existing controls and their effectiveness. CHC division Managers and the President self-assessed whether the internal controls they are accountable for were present and functioning. Based on their best judgement, CHC Administration evaluated internal controls, within each of the 17 principles set by the COSO framework, and determined that the controls were present, functioning and working together among the principles.

The 2018 Internal Control update (CHC2018-A11) was received for information at the 2018 September 14 ARM committee meeting. At this meeting, Administration was directed to bring forward an update in 2019 rather than the full assessment. The approved internal control framework is intended to continuously evolve with the needs of CHC and any changes in the industry as well as mirror The City of Calgary current framework and assessment. CHC Administration anticipates continuing to conduct an internal control assessment report every two years starting in 2020 with interim status updates on the internal controls improvement opportunities starting in 2021.

For further details on CHC's internal controls evaluation process, refer to Attachment 4 of this report.

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5. Most recent management report including management responses as appropriate

Deloitte LLP completed the external audit of CHC's 2018 financial statements and determined there were:

- No uncorrected misstatements in the course of the audit
- No corrected misstatements in the course of the audit
- No unadjusted disclosure deficiencies
- No significant deficiencies in internal controls were identified

For further details on CHC's financial report, audit plan and audit report, refer to Attachments 6 and 7 of this report.

6. Audit Committee 2019 Work Plan

CHC's Audit and Risk Management committee reviews its Terms of Reference each year. The ARM Committee's Terms of Reference outline the committee's membership, calendar and meetings, mandate, duties and responsibilities, resources needed, accountability, accessibility, communication, decision powers, and evaluation. For the complete 2019 Audit and Risk Management Committee terms of reference and workplan, refer to Attachment 5 of this report.

Stakeholder Engagement, Research and Communication

This report was drafted with input from ARM Committee and the Board of Directors. The financial statements were audited by Deloitte LLP.

Strategic Alignment

This report aligns with CHC's 2016 – 2022 Strategic Plan by enhancing its relationship with The City and clarifying CHC's role and governance. This report aligns with the City Audit Committee's governance responsibility to receive annual reports on matters of audit governance, including the CHC's most recent annual financial statements.

Social, Environmental, Economic (External)

This report has no social, environmental or economic implications.

Financial Capacity

Current and Future Operating Budget:

This report has no current or future operating budget implications.

Current and Future Capital Budget:

This report has no current or future capital budget implications.

Risk Assessment

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CHC uses The City's Integrated Risk Management Policy and Framework as a model to report annual to its Board of Directors. Attachment 3 provides additional detail on CHC's risk reporting.

REASON FOR RECOMMENDATION:

This report responds to the City Audit Committee reporting requirement and is intended for information only.

ATTACHMENTS

1. CHC Annual Report to City Audit Committee presentation from October 24, 2019
2. CHC Summary of Governance Structure, Succession Planning and Recruitment Process
3. CHC 2019 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary
4. CHC Internal Controls Assessment
5. CHC ARM Committee Workplan
6. Deloitte 2018 Year End Communication
7. CHC 2018 Financial Statements