CHC Audit Committee Report to
City Audit Committee
2017 December 14

Calgary Housing Company – 2017 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary

BACKGROUND

On 2011 May 27, The CHC Board of Directors approved the adoption of the City's Integrated Risk Management (IRM) Policy as a model for use by CHC, and directed CHC administration to annually inform the Board through the Audit and Risk Management (ARM) Committee regarding the current risk status of the company.

Since the approval by the Board of Directors and implementation of the City's IRM Model, CHC 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.

PURPOSE AND METHODOLOGY

The annual Integrated Risk Management report helps Administration to increase its ability to understand and manage organizational risks for the Corporation more effectively. Administration continues to actively:

- Increase staff awareness and understanding of risks and the IRM model.
- Engage all senior managers in the review and in-depth analysis of identified risks
- Develop detailed mitigation/action plan with timelines in addition to an overall mitigation plan for all risks determined to be highest

In preparation of its annual IRM report, CHC's management team met on separate occasions and evaluated all current identified risks to achieving the business plan goals as part of the CHC Strategic Plan. Risks were rated in terms of likelihood of occurrence in year 2017 and the significance of their impact on the operational status of CHC. The highest likelihood and highest impact rated risks are continually being monitored and have detailed risk mitigation action plans in place.

The principal risks to CHC and details of the mitigation strategies carried out by Administration to prepare for their impact and likelihood of occurrence are outlined in the explained in CHC Risk Analysis. The highest identified risks relate to reduction in rent revenue, reserve funds, uncertainty of funding sources and third party owned assets managed by CHC.

STAKEHOLDER ENGAGEMENT AND STRATEGIC ALIGNMENT

Administration continues to engage senior management staff on the IRM model and regularly monitors its risks. Administration supports a corporate philosophy and culture that encourages all staff to manage risks proactively and communicate openly about risk. All CHC staff actively report and manage operational risk in their work plans. The Integrated Risk Management report is presented annually to the Board for information.

Annual reporting of the CHC Integrated Risk Management report to the CHC Board of Directors is in alignment with CHC's Strategic Priority to Strive for Organizational Excellence, through the review and evaluation of integrated risks in supporting decision making to meet the company's objective of increasing organizational efficiency and effectiveness. This report is also in alignment with both the City of Calgary and CHC's IRM policies through the consistent identification, analysis and communication of integrated risks within the existing business environment at CHC. The following heat map and trend analysis summarize and analyze CHC's key operating and strategic risks which are also the risks that may impact the City of Calgary. Management's mitigation strategies are also part of the anlysis.

Likelihood

Low	Medium	High	Impact
	Vacancy Rates	Funding Uncertainty Third Party Owned Assets Managed by CHC Rent Revenue Reserve Funds	High
Emergency Response Exposure to Hazards Recruitment & Retention of Staff Data Security ESS Implementation Tenant Security	Continuity of Business Operations Damage to Brand CHC Owned Assets Condition Cost of Externally Sourced Services Internal Fraud		Medium
Tenant Misappropriation Provincial Operating Agreements			Low

Level of Risk	Definition
Green	The organization is willing to accept and monitor some risks since they have low likelihood of occurrence however with minor consequences.
Yellow	The organization recognizes these risks will probably occur and will have moderate consequences. Management will monitor and manage risks by implementing contingency plans to reduce the likelihood and impact of their occurrence.
Red	The organization recognizes that these risks are top priorities of critical importance to the organization. Management is spending more effort to manage and monitor these risks by implementing risk mitigation strategies to reduce the likelihood and impact of their occurrence.

Analysis of CHC's top 4 Risks

Risk Category	2015 Risk Map	Change	2016 Risk Map	Change	2017 Risk Map	Trend Explanation
Rent Revenue	Likelihood: Low Impact: Low		Likelihood: High Impact: Medium		Likelihood: High Impact: High	• Economic downturn and high unemployment leading to higher vacancy rate • CHC experiencing difficulties in attracting and retaining tenants • Rent revenue decreasing due to downturn in the economy
Reserve Funds	Likelihood: Medium Impact: Medium		Likelihood: Medium Impact: Medium		Likelihood: High Impact: High	• Insufficient operating and capital reserves to support lifecycle needs, replacement of assets or meet emergencies • Economic situation limiting funding for operating and capital projects
Funding Uncertainty	Likelihood: High Impact: High		Likelihood: High Impact: High		Likelihood: High Impact: High	• Significant advocacy efforts have resulted in infusion of provincial and federal capital dollars, but CHC has experienced cuts to operating dollars. This places CHC at risk of being in a deficit at year end unless cost savings are identified and implemented. • Unsteadiness in the municipal, provincial and federal political landscape heightened risk of funding uncertainty
3rd Party Owned Assets Managed by CHC	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Likelihood: High Impact: High	• Current operating agreements do not identify asset management within the scope of CHC contracted services • Asset condition assessments and capital investment prioritization for third-party owned portfolios are not currently in place

Risk 1

Rent Revenue

CHC relies on rent revenue from its various properties across its portfolios to support its operational and financial viability. The current Alberta economic downturn has resulted in rental vacancies increasing. Private landlords are offering reductions, and other incentives to maintain tenants and attract others to avoid huge vacancies. This activity has affected the ability of CHC to attract and retain tenants in our Low End of Market (LEM) rentals. As of February 28, 2017, the vacancy rate for LEM units was 13.2%.

A significant revenue loss would impact CHC's ability to maintain its assets, meet its financial obligations, and continue day-to-day services.

Management Mitigation Strategy

CHC monitors all rent revenues and vacancy rates weekly to ensure optimization of revenue based on CHC's mandate. The information collected is presented via performance measure reports to the CHCMT at the regular meetings. CHC's rent revenue initiatives are focusing on:

- Financial modeling completed for the top buildings with highest vacancies. Implemented rent adjustments and explored mixed model to improve vacancies.
- Commercial revenue opportunities are being explored, such as Lumino daycare
- Increase awareness and initiatives in rent collection practices
- Dedicated marketing and leasing staff from CHC have been assigned to some specific buildings to improve rental performance and sustain revenues in Social and Affordable Housing units.
- A business process review project has been completed to aggressively address reducing vacancies and to prevent further vacancy losses.
- Implemented a vacancy task force with the goal to create tactics to reduce vacancy and increase rent revenues. A list of recommendations has been presented an approved by the CHCMT.
- Vacancy reduction and rent revenue optimization is being improved through creation of an issues log, rent adjustment, property analysis, and marketing strategies.

In addition, CHC is taking the following steps to mitigate organizational rent revenue loss:

- Monitor economic and social trends that could impact CHC revenue;
- Reduce paperwork requirement for new applicants or existing tenants;
- Actively pursue partnerships with agencies in order to offer units to their clients who are transitioning out of programs such as emergency shelters or second stage shelters. For example, Servants Anonymous, Brenda Strafford Society, and Sonshine Society to name a few;
- Increase advertising such as print ads, mobile signs, and property signage;
- Develop marketing plans for buildings with higher vacancies;
- Monthly monitoring of rent revenues and vacancies status.

Risk 2

Reserve Funds

CHC currently has insufficient operating and capital reserves to support projected life cycle maintenance, redevelopment and emergency needs.

Management Mitigation Strategy

- Through the completion of Phase I and II of the Sustainability project CHC has more awareness of actual reserve requirements
- Action is being taken through optimization of net income initiatives to increase revenue and reduce operating expenditures
- CHC is implementing an asset management program to define requirements to bring units to legislative requirements and availability of capital to fund these requirements. How this strategy is implemented varies across the different housing portfolios CHC owns and manages.
- For the Calhome owned portfolios the Infrastructure & Asset Management group initiated a building conditions assessment program. This program assessed building condition and the anticipated capital and non-recurring funding requirements for individual building components. These funding requirements define the required lifecycle reserve. For 2017 and 2018 these lifecycle requirements have been funded by provincial grants and capital funding and City of Calgary capital allocations.

Risk 3

Funding Uncertainty

In addition to rent revenue, CHC relies heavily on government transfers to fund Provincial and City owned portfolios. Funding for the various Provincial and City Portfolios are identified in the operating agreements; however, many of those agreements are outdated and do not provide for sufficient inflationary increases and maintenance requirements to be met. Recent and continuous changes experienced in the municipal, provincial and federal political landscape as well as the expiration of the operating agreement pose a major risk to the funding of provincial and City owned portfolios. As well, the recent Provincial Government budget with a forecasted deficit of $10.4 billion in 2016-2017 and an expected $10.1 billion deficit in 2018-2019 with no clear indication as to when the deficits will cease makes funding uncertainty even higher for CHC.

Management Mitigation Strategy

CHC maintains a relationship with senior levels of government to anticipate current and future changes in government funding that are related to the provincial and city portfolios. CHC senior management has worked hard to advocate for increased funding to the CHC provincial and city portfolio through meetings, correspondence, phone discussions, presentations and portfolio tours and explanations.

The Sustainability project's purpose is to determine how CHC can meet its financial obligations given the anticipated changes in the future. CHC is in phase II of the Sustainability project which is designed to evaluate the impacts to affordable housing when operating agreements end. As provincial operating agreements are starting to expire, so will the funding CHC receives. Thus, projects need to be self sustainable and CHC needs to implement strategies to close the gap between funding, operating costs and operating reserves.

Risk 4

Asset Conditions

As the portfolio ages, life cycle maintenance needs to be appropriately identified, funded and implemented or there will be an increased risk to tenant health and safety, unmet service levels and/or the reduced lifespan of the housing stock. As well, construction methods and materials incorporated in older housing stock can either represent an environmental safety or health risk if inappropriately managed or a financial risk due to energy inefficiency.

Management Mitigation Strategy for Calgary Housing Company Owned Assets

CHC is implementing an asset management program described in the “Reserve Fund” risk category. This program defines a process for identifying lifecycle funding requirements for the Calhome owned portfolios. This program will be further supported through the implementation of an Enterprise System Solution which will include a required database to support hazardous substance management is anticipated to be incorporated into the scope of a new system implementation project being initiated within CHC.

As investments continued to be prioritized over 2015 and 2016 the condition and expected life of CHC assets has continued to improve. Various building envelope improvement projects have been completed or underway in order to address all identified deterioration and reduce the associated risk of unplanned failure at these properties. All code required inspections and investments have been maintained. The asset management program integration into the planning, operating, maintenance activities, as well as the Capital renewal program, will realize the real-time condition of the asset base under CHC direction.

Management Mitigation Strategy for Third Party Owned Assets Managed by Calgary Housing Company

Current operating agreements between Calgary Housing Company (CHC) and City and Provincial property owners do not identify asset management within the scope of CHC contracted services. This contracted service limitation had been identified as a risk to CHC in an audit of the CHC asset management program conducted by The City of Calgary Auditor and was reported to City Council. The CHC management response to this finding is to send a letter identifying this limitation to The City and provincial counterparts and to partner with the property owners to establish asset management programs on a fee for service basis. This asset management program would then provide a disciplined basis for asset condition assessments and capital investment prioritization based on agreed risk and level of service criteria. The program would define how capital investment decisions would be conducted and the resulting allocation of risk responsibility identified.