

Calgary Housing Company 2017 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 2018 May 2 which requested the following items provided:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2018 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 2018 Work Plan.

In summary, CHC has established good governance practices including recruitment processes, has demonstrated good financial performance in 2018 and has made good progress on assessing internal controls.

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

RECOMMENDATION:

That the Audit Committee receives this report for 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 2018 May 2, 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.

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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.

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 2018 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. 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. CHC does not depend on tax revenue for its funding, drawing only 10% of The City-owned social housing deficit from tax support. This amounted to \$367 thousand in 2017. CHC retained \$570 thousand of the City Partnership portfolio surplus to complete urgent repairs required in City-owned social housing. The surplus contribution returned to The City for City Partnership and Corporate Properties residential portfolios combined was \$339 thousand in 2017.

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 nine portfolios: e.g. Federal Fixed Subsidy, City Partnership etc. 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.

CHC reports to a Board of Directors. The Board is supported by four committees, 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 2017 statement of financial position and statement of operations.

Statement of Financial Position

Cash: The cash balance at the end of 2017 has risen from the prior year to \$34.2 million. It is worth noting that \$27.7 million 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 \$16.5 million in outstanding mortgages at December 31, 2016. Over 2017, CHC repaid \$3.9 million in long-term debt. At December 31, 2017 CHC had \$12.6 million in mortgages payable.

Tangible Capital Assets: Tangible Capital Assets decreased to \$99.7 million as at December 31, 2017 from \$102.2 million in 2016. The decrease was mostly due to asset amortization.

Statement of Operations

REVENUE

Rent Revenue: Rent revenue was \$48 million for the year ended December 31, 2017, which is consistent with the previous year. Rent revenue is being affected by lower rent-geared-to income (RGI) rents and increased vacancy rates throughout 2016 and 2017 in

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the low end of market segment as it more closely mirrors broader residential vacancy trends. In 2017 CHC formed a Vacancy work force which transitioned into a Portfolio review committee. The work of those groups allowed CHC to retain flat revenue levels in 2017 compared to 2016 through a combination of various strategies that were adopted to decrease vacancies and increase rent revenue.

Rent Supplements: The rent supplement programs provided \$19.4 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 \$3.1 million in administration costs for the year ended December 31, 2017. These costs, excluding the direct charges to certain portfolios, are allocated based on the number of units in each portfolio.

Maintenance: Maintenance expenses were \$19.7 million for the year ended December 31, 2017. Actual maintenance expenses were lower than budget due to the roll-over of certain grants to be utilized in 2018. The actual maintenance expenses for certain portfolios are dependent on the level of funding provided and do not reflect maintenance requirements. Maintenance is prioritized as follows: life safety; structural integrity; necessary repairs / legislative requirement; energy efficiency; and marketability.

SURPLUS

CHC reported a surplus of \$3.8 million after returning \$0.3 million to The City from the operation of The City's mixed-income portfolios, and after retaining \$0.6 million surplus from The City's mixed-income portfolios to utilize on suite modifications and a fire pump replacement in The City's social housing units in the following year. The CHC surplus was significantly higher than the prior year mostly due to the recognition of restricted funds used from CHC's deferred capital contributions.

Capital Expenditures

Overall, 2017 actual capital expenditures were \$5.9 million lower than the budget of \$6.8 million mostly due to the rollover of the East Village place acquisition grant to be used in 2018 and 2019, as well as the delayed spending in the IT section as the Enterprise System Solution (ESS) implementation was delayed to 2018 and 2019.

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1.3. Key 2018 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 2018 initiatives are identified as follows:

Priority I: Deliver Quality Service to Clients

Objective 1: Take a 'Client-Centric' approach to Service Delivery

Objective 2: Build Positive Working Relationship among Staff and Clients

Objective 3: Foster Opportunities that Contribute to Well-Being and Independence for Individual Clients as well as Community Well-Being

Priority I 2018 Initiatives:

CHC partnered with the City on two collaborations which brought summer programming to children living at CHC. One was in partnership with Mount Royal University and Recreation to identify barriers to recreation participation and the second was about inspiring creative and imaginative play in youth with Calgary Neighborhoods, Recreation and Parks. Over the course of the spring and summer, approximately 670 children between the ages of 6 and 17, had access to the programming on-site.

Customer Service Representatives from Calgary Housing Company were nominated for providing exceptional customer service to low income Calgarians at Calgary Residential Rental Association Awards.

Priority II: Increase Financial Sustainability Including the Optimization of Assets

Objective 1: Develop and Implement an Asset Management Program

Objective 2: Implement Initiatives to Increase Financial Sustainability

Priority II 2018 Initiatives:

The Sustainability project results and conclusions was completed and presented to the Board. A Portfolio Review Committee (PRC) was created to ensure financial viability of CHC operations while balancing social mandate to provide affordable housing that meets the needs of low and moderate income Calgarians. The terms of reference have been completed and transition of the Sustainability project to the PRC has begun.

A Notice of Motion was passed by City Council to grant a municipal tax exemption for 2018 – saving CHC approximately \$1.3M. In addition, a survey was developed for the CHC Board to determine the level of risk that should be used in the development of the financial investment policy. Two separate investment policies are being developed for the CHC Board and Administration. CHC also completed report of CHC's current energy

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consumption and rates and recommendations were presented to the Management Team.

Unit Condition Standards have been established and are being utilized when units are turned over.

Priority III: Strengthen Relationships with Key Stakeholders

Objective 1: Work with Government and Stakeholders to Increase Awareness and Support for a More Sustainable Affordable Housing Delivery Model

Objective 2: Enhance Working Relationships with The City and Province to Create Synergies and Clarify CHC's Role & Governance

Priority III 2018 Initiatives:

CHC has launched an internal taskforce to help transform social housing in Calgary to capitalize on the momentum generated through the National Housing Strategy; the Provincial Affordable Housing Strategy and The City's Corporate Affordable Housing Strategy.

Budget awareness and advocacy efforts resulted in an increase of \$6M to CHC's base operating budget, plus additional one-time funding grants to close the remaining gap.

Priority IV: Strive for Organizational Excellence

Objective 1: Increase Organizational Efficiency and Effectiveness

Objective 2: Develop CHC as a Leading Affordable Housing Provider

Objective 3: Build a Positive Organizational Culture that Engages Employees

Priority IV 2018 Initiatives:

CHC was chosen to be the Alberta Public Housing Administrator's Association (APHAA) representative on the Province's policy and legislation working group to inform the implementation of actions related to the Provincial Housing Strategy, such as the Province's new tenant dispute resolution process, and tenant support worker research.

Processes related to complaints and inquiries through escalation have been reviewed for gaps and opportunities. Interim processes are being piloted while the Customer Service policy is developed.

CHC Management Team identified key positions where succession plans are at highest risk, in order to assess candidates for development.

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

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 Administration to annually inform the Board through the ARM Committee regarding CHC's current risk status of the Company. The IRM framework enhances CHC's ability to proactively manage risk and make well informed decisions. Currently CHC is in its seventh year of reporting on IRM. The following section discusses CHC's key operating and strategic risks, recent trends, and risk mitigation strategies.

Funding uncertainty

This risk is currently ranked **high** in both likelihood and impact and has stayed unchanged in ranking from the prior year. This particular risk primarily affects portfolios funded by federal and provincial operating subsidies where funding levels have been insufficient to meet inflationary increases and maintenance requirements. CHC's highest priority is the safety, security, and wellbeing of tenants living in the affected buildings. For 2018, CHC requested \$22 million in operating funding which covers both the Provincial and City-owned social housing portfolios and \$6 million in capital funding. This funding was required to meet health and safety standards under the *Residential Tenancies Act*.

The Government of Alberta responded to CHC's request by providing \$18 million in operating funding, an increase of \$6 million over the previous year. It also committed to two one-time grants for the Municipally owned social housing portfolio. In addition, CHC received \$4.7 million in capital funding commitments. This funding only begins to address the 10-year capital investment requirement for all provincially funded portfolios currently estimated at a total close to \$150 million for all social housing combined.

CHC continues to advocate for stable provincial funding, a commitment for an asset management plan and long-term capital to address the 10-year investment requirement for the portfolios. Annual capital funding on a long-term basis is required to bring the entire City-owned social housing portfolio to an adequate condition and mitigate this risk, particularly because the assets will eventually return to The City once the funding agreements expire.

Vacancy Risk and Rent Revenue

This risk is rated **high** in both likelihood and impact. This risk has stayed unchanged from the prior year largely due to a fragile economic recovery and market conditions. Rent revenue has been adversely affected by higher vacancy rates in the low-end-of-market (LEM) segment and lower rent rates from rent-geared-to-income (RGI) tenants in the social housing portfolios due to falling incomes during the economic downturn. To mitigate this risk, CHC developed a vacancy strategy and explored opportunities for

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commercial revenue. These initiatives have proven successful in improving the average vacancy rate in low-end of market units from 13.3% in January 2017 to 7.0% in December 2017. The affordable segment has had a smaller reduction going from 7.8% in January 2017 to 2.9% in December 2017.

Reserve Funds

This risk is rated **high** in both likelihood and impact. Action is being taken through CHC's Sustainability strategy and optimization of net income initiative to identify reserve requirements. In 2018 CHC is focusing on drafting a reserve strategy with expected reserve policy and reserve terms of reference to be developed in 2019. This strategy will set up a structure and priority model which will guide and establish reserves at CHC.

Condition of Third Party Owned Assets

This risk is rated **high** in both likelihood and impact. Asset condition risk affects mainly the heavily subsidized portfolios, such as social housing. CHC is required to meet minimum health and safety standards under the *Residential Tenancies Act*. As the CHC-managed portfolios age, life cycle maintenance needs to be appropriately identified, funded and implemented or there will be an increased risk of service levels not being met or the lifespan of the housing stock being reduced. As well, construction methods and materials incorporated in older housing stock can represent an environmental safety or health risk if inappropriately managed. CHC's mitigation strategies include: advocating for the establishment of an asset management program for third party owned assets; and establishing a long-term viable operating model for CHC to continue managing provincially owned properties under the legislative framework.

In 2018, CHC completed building condition assessments on the majority of City-owned social housing as part of a strategic asset management program. CHC has also made progress in unit improvements to bring units up to standard in the City-owned social housing portfolio funded by the grants provided by the City and the Province. In addition CHC has completed unit improvements in the provincially-owned social housing portfolio in order to re-open the units that were closed in 2017. Furthermore, CHC has engaged with the Province to review the expiring social housing operating agreements on municipally-owned properties and discuss changes to the social housing operating model. CHC was able to negotiate with the Province a \$6M increase in the based operating budget for the social housing portfolios.

For further details on CHC's operating and strategic risks, refer to Attachment 4 of this report which outlines risks identified and presented to CHC's Board of Directors in 2018 June.

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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: funding uncertainty, rent revenue, reserve funds and third party owned assets managed by CHC as noted above.

For further details on the top risks, refer to Attachment 4 of this report.

4. Report on internal controls including information technology and systems

On September 19, 2016, ARM Committee approved CHC's adoption of the *Committee of Sponsoring Organizations (COSO) of the Treadway Commission: Integrated Framework* to guide future internal control environment assessment and reporting. This included an implementation process and schedule to conduct a self-assessment of the current internal control environment at the entity level of CHC.

The *COSO Internal Control – Integrated Framework* is the most widely used framework for Sarbanes-Oxley Act (SOX) compliance and is the model of choice in many North American jurisdictions, including Canada. It is also currently used by The City of Calgary and the Calgary Parking Authority.

In 2017, 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. As part of the detailed assessment, CHC Administration also evaluated specifically whether the organization selects and develops general controls over technology and determined that the controls in this area are present and functioning. CHC Administration's conclusion is that the overall system of internal controls is effective. The conclusion is based on the professional experience and judgement of the Administration.

Some opportunities for improvement were identified at the individual internal control level. These individual opportunities for improvement do not impact the overall effectiveness of the system of internal controls. CHC Management team is committed to ongoing continuous improvement of internal control processes and recommends appropriate resources be assigned as required. The Internal controls self-assessment report was approved by the CHC Board of Directors on December 15, 2017 and the major findings of the report were shared with City Audit committee on December 14, 2017.

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For further details on CHC's internal controls evaluation process, refer to Attachment 5 of this report.

5. Most recent management report including management responses as appropriate

Deloitte LLP completed the external audit of CHC's 2017 financial statements and issued an unqualified audit opinion. In addition, there were:

- One uncorrected misstatement 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, 7 and 8 of this report. The management report including responses by CHC management can be found on p.10 to p.12 of Attachment 7.

6. Audit Committee 2018 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 2018 Audit and Risk Management Committee terms of reference and workplan, refer to Attachment 9 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.

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Risk Assessment

CHC uses The City's Integrated Risk Management Policy and Framework as a model to report annual to its Board of Directors. Attachment 4 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 September 18, 2018
2. CHC Summary of Governance Structure, Succession Planning and Recruitment Process
3. CHC Audit & Risk Management Committee Members Qualifications and Experience
4. CHC 2018 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary
5. CHC Internal Controls Assessment
6. Deloitte 2017 Service Audit Plan
7. Deloitte 2017 Year End Communication
8. CHC 2017 Financial Statements
9. CHC ARM Committee Workplan