

AUDITOR
GENERAL
Alberta

Report of the Auditor General of Alberta

April 2008

Monarch Place

1. Summary

Public complaint about the Society

We received a public complaint about Innovative Housing Society of Canada (Society)¹ selling Monarch Place, an affordable housing project in Red Deer, Alberta. The Society had received grant funding from the government of Alberta to construct the project and the continued availability of affordable housing in the project was uncertain.

Department has adequate systems

We examined the grant funding transaction between the Department of Municipal Affairs and Housing (Department)² and the Society for Monarch Place. Our objectives were to determine if program goals were met, public funds were protected, and the contract was monitored adequately. We conclude that the Department had adequate systems to ensure the Monarch Place grant was disbursed in accordance with program goals, and public funds were protected.

Department now provides funding to municipalities

Beginning in 2007–2008, most funding for affordable housing programs will be provided to municipalities, which will in turn enter into funding agreements with third parties.³ The Department believes that municipalities are in a better position to evaluate and monitor grant recipients. Accordingly, we make no recommendations to the Department.

No recommendations

Operating shortfall from the beginning

The Society received a \$1.3-million affordable-housing grant from the Department in January 2004 to construct Monarch Place. The facility opened in the spring of 2005 and experienced an operating deficit from the beginning.

Shortfalls responsibility of grant recipient

In December 2006, the Department informed the Society that operating deficits were the responsibility of the recipient, as specified in the funding agreement, which was a capital-based initiative not allowing for operating expenses. With no available business solution, the Society sold Monarch Place. The new owner decided not to provide housing under the terms of the funding agreement, and the grant funds became repayable. We found no evidence that the Society operated outside of the terms and conditions of the affordable housing grant.

Monarch Place sold: new owner not providing affordable housing

¹ Formerly Handicapped Housing Society of Alberta

² Formerly Ministry of Seniors and Community Supports.

³ Approximately 93% of grant funding will be directed to municipalities for 2008-2009

2. Audit objectives and scope

Funding arrangement between Department and Society

Our objective was to determine if the Department's handling of the Monarch Place project ensured program goals were met, public funds were protected and the contract was adequately monitored. Our scope was to review the program objectives and goals, examine the Monarch Place funding agreement, and interview Department staff, Society personnel and other parties. We did not audit the Society's books and records.

3. The affordable housing program

Housing programs started in 2002

In 2002, the Government of Canada announced a \$680 million affordable housing program for Canada. Alberta's share was about \$67 million. The program required affordable housing units to be available for 10 years and rent to be at least 10% below average market rents. The Alberta government matched the program funding of \$67 million, for a total of roughly \$134 million. Alberta also doubled the time that the units had to be available, from 10 to 20 years. The Department administers this program, called the Affordable Housing Program Initiative (AHPI). One of the Department's objectives is to provide affordable housing in partnership with third parties.

Department wants to partner with third parties

Concept started with local citizens

In 2001, several Red Deer residents formed the Monarch Housing Board to develop an affordable housing project. The Red Deer community responded by providing financial commitments in various forms. The Board soon realized it needed a partner to operate and manage the proposed facility, to be called Monarch Place. The Board turned over the task of developing and managing Monarch Place to the Society in the spring of 2003.

Responsibility turned over to Society in 2003

Society awarded \$1.3-million grant for 26 affordable housing units in a 65-unit building

The Society applied for an AHPI grant in April 2003 and was awarded \$1.3 million in January 2004 for 26 units in the Monarch Place project. One of the funding conditions was that the affordable housing units had to be at 10% below average market rents for 20 years. In the spring of 2005, the 65-unit facility opened. It consisted of 26 affordable housing units (to be rented at below-market rents), 20 transitional units (for families in need) and 19 units (to be rented at market rents).

4. Conclusion

Society operated within terms and conditions of grant

We found no evidence that the Society operated outside of the terms and conditions of the affordable housing grant. The Society experienced financial difficulties upon opening Monarch Place. With no available solution, the Society sold the property through a real estate agent to a third party, not affiliated with the Society. The sale triggered a repayment process under the funding agreement, which is currently underway. Any further development by the new owners is beyond the relationship between the Society and the Department, and therefore beyond the scope of this audit.

5. Audit findings

Detailed proposal submitted in support of application

5.1 The application process

The supporting documentation for the AHPI grant application consisted of a detailed proposal submitted by the Society for the Monarch Place project. The detailed application included the target client group, community needs, projected finances, permanent financing, projected pro-forma, financial statements and development timetable. The Department approved the application after examining it for reasonableness.

Contract had usual conditions for AHPI grant

5.2 The contract

Once the AHPI application was approved, the Department and the Society signed a contract for \$1.3 million for 26 affordable housing units. The contract stipulated that the affordable housing units had to be maintained for 20 years and that the rent had to be at least 10% below average market rent. The contract's termination clause stated that if the program requirements were not met, the balance of the grant had to be repaid to the Minister. The balance outstanding declined 5% for each year of operation. Any operating shortfall was the responsibility of the recipient.

Funding process followed normal procedures

5.3 The construction process

The grant funding provided to the Society followed the Department's standard procedures. Initially, the Society received 50% of the grant funding to start the construction of the building. The contractor submitted a progress report at the 50% completion stage to draw another 40% of the funding. A certificate of substantial completion with audited financial statements for the project was provided to the Department allowing it to release the final 10% of the grant funding. The project was initially forecast to cost \$5.8 million, but ended up with an overrun of about \$600,000, for a final cost of \$6.4 million. We did not investigate the cause of the cost overrun.

Society faced unexpected operating expenses

5.4 Financial difficulties

The Society told us the project faced financial challenges from the beginning of operations, due to:

- increased live-in management expenses,
- unanticipated municipal property taxes,
- lower-than-budgeted occupancy rates, and
- additional long-term debt borrowing costs due to construction overruns.

Department and Society met to discuss options	5.5 Meeting the Department In December 2006, the Society, at their request, met with the Department officials to discuss the operating shortfall. They could not reach a solution. There was no discussion on alternative strategies. The Society told the Department they would have to consider all their options in trying to solve the problem.
Society sold property to an unrelated third party	5.6 Sale of property Facing the continuing operating deficit, the Society decided in January 2007 to sell the building and listed it with a real estate agent. The real estate agent stated that the property was sold at fair market value to a third party. The transaction for \$6.8 million was conducted at arms length. The new owners were not contractually obligated (and decided not) to assume the terms and conditions of the original agreement between the Department and the Society. This terminated the contract, requiring the Society to repay the entire grant, less the yearly allowance of 5%. When the contract ended, the Society owed the Department \$1.17 million.
Society owes \$1.17 million to Department	