



4.6.

Management of the Municipal Housing Programs Stemming From the “Montréal Reflex” Framework Agreement

[Service de l'habitation]

April 9, 2020

2019 Annual Report

Auditor General of the Ville de Montréal



OBJECTIVE

Ensure that the Service de l'habitation (SH) has taken the necessary measures to enable it to fulfill its new housing responsibilities stemming from the "Montréal Reflex" framework agreement.

RESULTS

In December 2016, the Québec government and the Ville de Montréal (the City) entered into the "Montréal Reflex" framework agreement, thereby officially recognizing Montréal as the metropolis of Québec. Pursuant to this housing agreement, the Société d'habitation du Québec (SHQ) transfers powers and responsibilities to the City. Henceforth, the City can, without requiring the authorization of the SHQ, adopt and implement a housing program. The City now has the authority to guarantee any loan granted to bodies under the AccèsLogis program. These new powers have led the City to adopt a new AccèsLogis Montréal program adapted to Montréal's reality. Following our audit and considering the importance of the responsibilities as well as the financial risks they represent for the City, we are of the opinion that improvements should be made considering the following main aspects:

- The SHQ and the City have different views on the degree of the City's involvement in terms of housing unit targets to be reached;
- The loan agreement entered into with the approved lender to finance the implementation of the projects does not cover all of the units approved under the AccèsLogis Montréal program;
- The City has not evaluated whether the resources involved in managing projects under the AccèsLogis Montréal program have all the expertise required to assess the financial soundness of the organizations and the viability of the projects;
- The City has not obtained confirmation from the SHQ that the new municipal programs take into account the government's orientations and objectives;
- There is no evidence that bodies that submitted projects under the AccèsLogis Montréal program have or have not encountered financial difficulties with their projects in the past;
- The City has not decided whether projects carried out under the AccèsLogis Montréal program are subject to the governance framework for municipal projects and asset programs;
- The City does not systematically request financial statements from bodies that have submitted projects under the AccèsLogis program, in order to assess their financial soundness;
- Documents sent to the approved lender regarding project financing are not authorized by the manager of the SH in accordance with the delegation of authority from the executive committee;
- There is no evidence that the variables affecting the calculation of subsidies have been verified;
- The City does not make sure that the organizations and contractors are not on the Register of Enterprises Ineligible for Public Contracts (REI);
- Indicators have not been established within the City to assess the extent to which the transfer of authority and responsibility has produced the expected benefits.

In addition to these results, we have formulated various recommendations for business units.

The details of these recommendations and our conclusion are outlined in our audit report, presented in the following pages.

It should be stressed that business units were given the opportunity to agree to this, and we will submit their comments later.

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LIST OF ACRONYMS

AFA	Application for Financial Assistance	PA	Preliminary Approval
CC	Conditional Commitment	RAAP	Residential Adaptation Assistance Program
CMHC	Canada Mortgage and Housing Corporation	REI	Register of Enterprises Ineligible for Public Contracts
CTA	<i>Cities and Towns Act</i>	RQP	Renovation Québec Program
DC	Definitive Commitment	RSP	Rent Supplement Program
IAD	Interest Adjustment Date	SH	Service de l'habitation
LRH	Low-Rental Housing	SHQ	Société d'habitation du Québec
MAMH	Ministère des Affaires municipales et de l'Habitation	TK	Turnkey
MPC	Maximum Permissible Costs	TRG	Technical Resource Group



1. BACKGROUND

On December 8, 2016, the Ville de Montréal (the City) and the Québec government entered into a framework agreement titled “Montréal Reflex” which officially recognized Montréal as the metropolis of Québec. The agreement covers several aspects, including housing.¹ To implement the “Montréal Reflex,” the government intended to:

- add a “Montréal Chapter” to all economic and social policies clearly identifying the social, economic and financial impacts on the metropolis of the measures put forward by the Québec government;
- consult the City when appropriate regarding laws, regulations, programs, policies or directives that directly concern or affect it.

On September 21, 2017, Bill 121, *An Act to increase the autonomy and powers of Ville de Montréal, the metropolis of Québec*, was adopted by the National Assembly, providing enabling powers to the City. Consequently, the *Charter of Ville de Montréal* was renamed the *Charter of Ville de Montréal, metropolis of Québec*. More specifically, with respect to housing, powers were transferred from the Société d’habitation du Québec (SHQ) to the City. Thus, the *Act respecting the Société d’habitation du Québec* was amended to include two new sections:

- The City may, without the SHQ authorization or approval, prepare, adopt by by-law and implement in its territory a housing program to promote the development of dwellings to be made available to persons or families of low or moderate income and to allow the improvement of existing dwellings;
- The City may, without the authorization of the Minister in charge of the Ministère des Affaires municipales et de l’Habitation (MAMH), grant a loan guarantee in the administration of a program under section 56.4 of the *Act respecting the Société d’habitation du Québec*.²

The municipal housing programs targeted by the transfer of powers and responsibilities are the housing financial assistance programs, namely the AccèsLogis program, the Renovation Québec Program (RQP) and the Residential Adaptation Assistance Program (RAAP). A description of these programs can be found in Appendix 5.1.

¹ Other aspects covered: combatting homelessness, immigration, culture and heritage, school infrastructure and equipment.

² *Act respecting the Société d’habitation du Québec*, section 56.5.

On December 14, 2017, regarding the newly transferred responsibilities, the City's urban agglomeration council adopted an amendment to the *By-law concerning subsidies for the development of non-profit cooperative housing (02-102)* regarding the AccèsLogis program.³ Thus, certain sections have been modified in order to adapt the program to Montréal's reality and new sections have been inserted, including those dealing with loan guarantees. The AccèsLogis Montréal program (*By-law 02-102B*)⁴ was born.

Also on December 14, 2017, the City's urban agglomeration council delegated to the executive committee, through its internal by-law,⁵ the power to guarantee any loan extended under the AccèsLogis Montréal program since social housing is an urban agglomeration power. In turn, the executive committee delegated this responsibility to the manager of the Service de l'habitation (SH).⁶

The "Montréal Reflex" framework agreement resulted in the City reaching sectoral agreements. Thus, on March 29, 2018, the City's urban agglomeration council approved the final version⁷ of the sectoral agreement between the City and the SHQ titled *Agreement regarding the transfer of budgets and housing responsibility* (the sectoral agreement with the SHQ). This agreement contains, in particular, provisions regarding the financial transfer framework, the budget for housing programs, the payment of subsidies, accountability and the monitoring committee. The agreement also aims to ensure that the measures provided for in the "Montréal Reflex" framework agreement will lead to:

- The transfer from the SHQ to the City of budgets and responsibilities relative to the development of housing on its territory⁸;
- The SHQ's commitment to modify its intervention framework to enable the City to manage the amounts earmarked for its territory in accordance with its operational criteria adapted to its reality and government orientations, particularly with regard to the objectives to be achieved, so as to implement municipal housing programs to develop housing for low- and moderate-income persons. It will also enter into agreements with the City regarding their financing and monitoring, as well as the compliance of its management through ex post facto accountability, particularly with regard to government objectives.

³ RCG 17-036: *By-law amending the By-law concerning subsidies for the development of non-profit cooperative housing (new program) (02-102)*.

⁴ *By-law 02-102B: By-law concerning subsidies for the development of non-profit cooperative housing (AccèsLogis Montréal)*.

⁵ RCG 17-037: *Urban agglomeration council internal management by-law concerning the delegation of urban agglomeration council powers to the executive committee regarding the assistance program for the development of non-profit cooperative housing*.

⁶ RCE 02-004, section 41.10.2. *By-law concerning the delegation of powers to officers and employees*.

⁷ Initial version approved by the same body on September 28, 2017.

⁸ Excluding the budgets of the Low-Rental Housing (LRH) stock, which is subject to an agreement with the Canada Mortgage and Housing Corporation (CMHC).

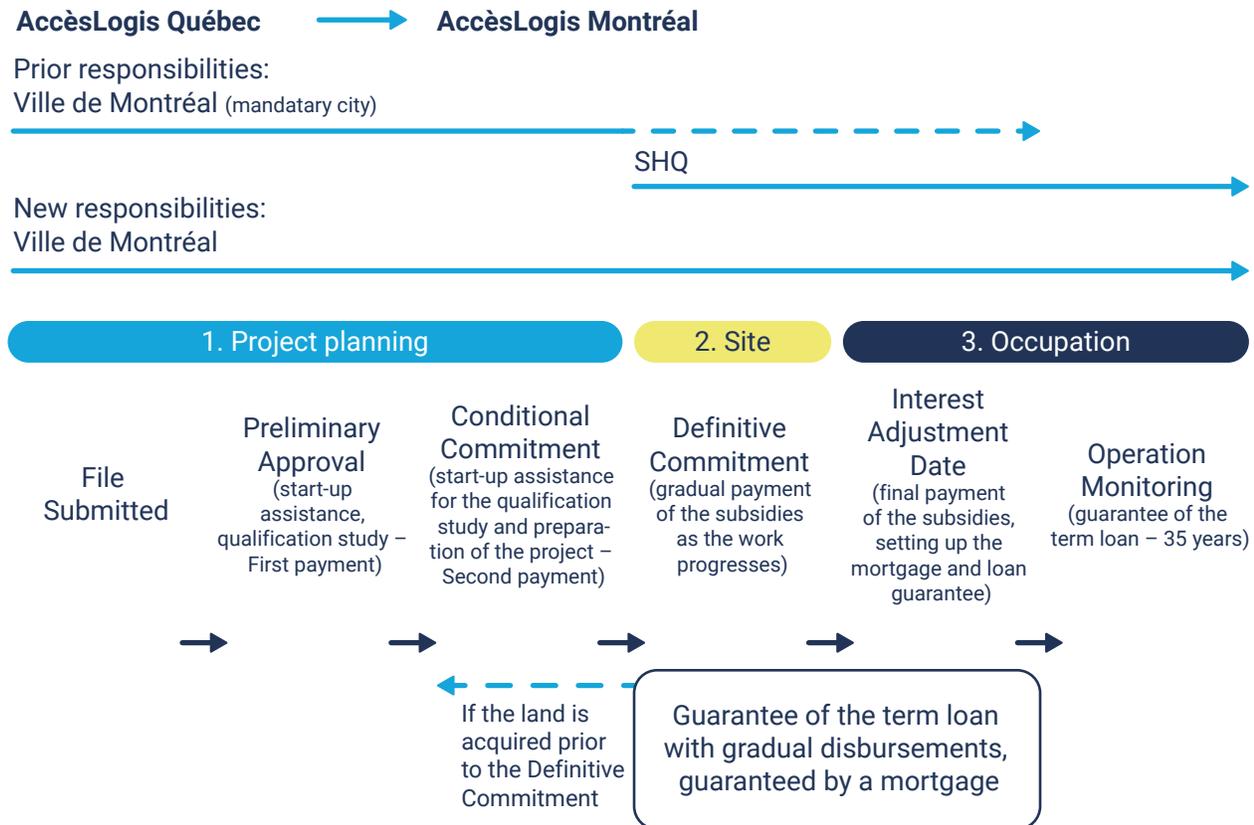
The budgets transferred correspond to an overall budget of \$93.7 million for fiscal year 2017–2018, i.e., 36% of the budget made available to the SHQ, and this percentage will increase annually by one percentage point until it reaches 40% in the fifth year of the sectoral agreement with the SHQ, i.e., on March 31, 2022. In addition, the new powers conferred to the City allow it to proceed with an in-depth review of current financial assistance programs to better adapt them to Montréal’s reality. This agreement is also in keeping with the municipal administration’s desire to develop 12,000 social and affordable housing units between 2018 and 2021, including 6,000 social and community housing units and 6,000 affordable housing units.

On June 6, 2018, the City’s executive committee approved a draft agreement between the SHQ and the City titled *Entente concernant l’utilisation de la demande d’aide financière, du fichier de gestion des débours et du fichier de factures à la Ville*, which will enable the City to access the digital tools for the AccèsLogis Montréal program (the same tools already used by the SHQ for the AccèsLogis Québec program), in particular the Application for Financial Assistance (AFA), the disbursement management file and the invoice file.

On June 13, 2018, in connection with the City’s responsibility to guarantee loans to bodies, the City’s executive committee approved a draft loan agreement with an approved lender titled *Agreement respecting the AccèsLogis program to develop non-profit cooperative housing units*.

Note that, prior to the conclusion of the “Montréal Reflex” framework agreement, the City, as mandatory city, already assumed expanded responsibilities with respect to the AccèsLogis program (AccèsLogis Québec) before powers and responsibilities were transferred. Figure 1 below illustrates the differences in responsibilities for the City between the AccèsLogis Québec and AccèsLogis Montréal programs.

Figure 1 – Responsibilities of the Ville de Montréal



Source : Service de l'habitation

Most of the City's powers and responsibilities stem from the sectoral agreement with the SHQ regarding the AccèsLogis Montréal program because of the loan guarantees, since the agreement now grants financial assistance in the form of loan guarantees to bodies to complete social housing projects. This is a major responsibility because of the financial risks for the City in the event of a default by the bodies on their financial obligations to the lending institution. In fact, as of October 31, 2019, the City has guaranteed an amount of \$6.1 million⁹ and it is estimated that it will be called upon to guarantee an amount of \$158.3 million¹⁰ for all the projects that have passed the Preliminary Approval (PA) stage. In addition, the City will be required to monitor projects in operation over a 35-year period, due to the term of the mortgage, to ensure that they are well managed. It should be noted that as of October 31, 2019, there are no projects in operation.

Approval of the sectoral agreement with the SHQ will also make it possible to improve or review existing programs to make them more effective and, above all, better adapted to the needs and issues. The AccèsLogis program is the one that presents the most urgent situation, since its current standards make it increasingly difficult to apply on the territory of Montréal.

⁹ According to the information obtained from the SH.

¹⁰ Net implementation costs of project subsidy amounts.

2. PURPOSE AND SCOPE OF THE AUDIT

Pursuant to the provisions of the *Cities and Towns Act*, we conducted a performance audit mission on the management of municipal housing programs stemming from the “Montréal Reflex” framework agreement. We carried out this mission in accordance with the Canadian Standard on Assurance Engagements (CSAE 3001) of the CPA Canada Handbook – Assurance, as well as with the other Canadian assurance standards that apply to the public sector, as issued by the Auditing and Assurance Standards Board, with the support of CPA Canada.

The objective of this audit was to ensure that the SH has taken the necessary measures to enable it to fulfill its new housing responsibilities stemming from the “Montréal Reflex” framework agreement.

The new responsibilities are related to three programs (AccèsLogis, RQP and RAAP). However, these new responsibilities relate more to the AccèsLogis program and, as such, our audit work was mainly oriented towards this program. Furthermore, we conducted an audit mission of the RQP in 2017. One of the objectives was to assess the extent to which grants were rigorously monitored for compliance with the conditions set out in the regulations for the five RQP subprograms. Thus, the analysis of applications for financial assistance, the calculation of grants, compliance with regulatory provisions, budget monitoring and accountability have been considered.

The responsibility of the Auditor General of the Ville de Montréal (the City) consists of providing a conclusion on the audit’s objective. For that purpose, we gathered sufficient and appropriate evidence to support our conclusion and gain reasonable assurance. Our evaluation is based on the criteria that we deemed valid under the circumstances. These criteria are presented in Appendix 5.2.

The Auditor General of the Ville de Montréal applies the *Canadian Standard on Quality Control (CSQC) 1* of the CPA Canada Handbook – Assurance. Consequently, he maintains an extensive quality control system that includes documented policies and procedures with respect to compliance with the rules of ethics, professional standards and applicable legal and regulatory requirements. He also complies with the rules on independence as well as with the other rules of ethics of the *Code of ethics of chartered professional accountants*, which are based on the fundamental principles of integrity, professional competence and diligence, confidentiality and professional conduct.

Our audit covered the period extending from April 23, 2018, to October 31, 2019. However, for certain aspects, earlier data was also examined. Our work was carried out mainly between June 2019 and February 2020. We also took into account information provided to us up to April 9, 2020.

Most of our audit work involved the SH.

At the end of our work, a draft audit report was presented for discussion to the relevant managers within the SH.

The final report was then sent to the management of the SH as well as to the director general for the purpose of obtaining action plans and timetables for the implementation of the recommendations concerning them. A copy of the final report was also sent to the deputy director-general of Qualité de vie.

3. AUDIT RESULTS

3.1. Applicable Agreements and New Responsibilities Regarding the Targeted Housing Programs

The various applicable agreements have had the impact of conferring new responsibilities on the City, as mentioned in the introduction. In this section, we shall therefore describe these new responsibilities and then raise a few aspects that hinder their full implementation.

3.1.1. Agreement Regarding the Transfer of Housing Budgets and Responsibilities (the Sectoral Agreement with the Société d’habitation du Québec)

3.1.1.A. Background and Findings

So far, three budget periods have elapsed since the transfer of responsibilities to the City. The total budgets granted by the SHQ (according to the government’s budget period, i.e., from April 1 to March 31) and the distribution of the budget envelope by the SH are shown in Table 1.

Table 1 – **Distribution of Budgets Per Program Conveyed by the Société d’habitation du Québec (in Millions of Dollars)**

YEAR	ACCÈSLOGIS	RENOVATION QUÉBEC PROGRAM	RESIDENTIAL ADAPTATION ASSISTANCE PROGRAM	TOTAL
2017-2018	74.6	9	10.1	93.7
2018-2019	85.36	9.25	9.25	103.86
2019-2020	-	19.5	23.4	42.9
TOTAL	159.96	37.75	42.75	240.46

We note that the budgets granted to the City by the Québec government cover the 2017–2018 and 2018–2019 budget periods. For the 2019–2020 period, a partial budget has been allocated since the government has made no commitment regarding the AccèsLogis Montréal program. According to the information obtained from the SH, the government has not allocated a budget for this program because of the program’s desire to complete projects for which units had already been committed under the AccèsLogis Québec program. The SH made a budget request to the government for the AccèsLogis Montréal program in order to pursue social housing projects while maintaining its autonomy as a metropolis, but the request has remained unanswered to date. In the absence of such budgets, the SH cannot commit to new projects under the AccèsLogis Montréal program.

New Responsibilities

Transfer of Housing Programs Budgets

The sectoral agreement with the SHQ states in its preamble that the City can manage the amounts provided for on its territory according to not only its operational criteria adapted to its reality, but also government orientations, including with regard to the objectives to be achieved. In the course of our audit work, we first sought to obtain more details on this aspect, namely whether the government had communicated targets to the City. We also sought to understand how the City would ensure compliance with this aspect. According to the information obtained from the SH, the SHQ communicated targets “in terms of housing units” for the 2018–2019 budget period. The SH’s position is that the transfer of responsibilities and powers:

“[...] enables it to determine the subsidy quantum¹¹ per housing unit. The City can therefore increase the unit grants, which it does in order to deal with the conditions under which projects are carried out on its territory.” This position is justified by the fact that the targets stated by the SHQ “create equity issues [...] because each unit developed in Montréal requires a financial effort greater than that required to develop housing in other regions.”

The SH pointed out this contradiction in writing to the SHQ in August 2018 and, according to information obtained, the SHQ reiterated in writing, in December 2018, that:

“[...] the City must also contribute to the attainment of various government objectives,” announcing, however, that a procedure would be put in place to consult Montréal “prior to the establishment of future government objectives and orientations concerning municipal housing programs.”

¹¹ Amount determined.

We will come back to this subject in section 3.3.1. To date, there has been no outcome and we believe that the SH must clarify this aspect with the SHQ to ensure that both parties agree in order to prevent the City from finding itself in a situation where it might not meet its obligations.

RECOMMENDATION

3.1.1.B. We recommend that the Service de l'habitation follow up with representatives of the Société d'habitation du Québec to obtain clarification as to the meaning of the objectives mentioned in the sectoral agreement with respect to housing programs in order to avoid a situation that could jeopardize the obtaining of budgets because of non-compliance with its obligations in this regard.

RESPONSE

3.1.1.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.1.2. Agreement for Investment in Affordable Housing (Canada Mortgage and Housing Corporation)

3.1.2.A. Background and Findings

The sectoral agreement with the SHQ indicates that the City acknowledges having received a copy of the financing agreements between the SHQ and the CMHC, which participates in the financing of various housing programs. These agreements stipulate the SHQ's obligations towards the CMHC in order to report on a quarterly basis.

As part of our audit work, we asked the SH for copies of the funding agreements to assess whether the City had responsibilities towards the CMHC.

We first obtained a copy of the initial agreement between the SHQ and the CMHC, titled *Agreement for Investment in Affordable Housing 2011–2014* and signed by the parties on March 19, 2012. We also obtained a copy of the extension of *“the agreement for investment in affordable housing”*¹² for the 2014–2019 period, signed by the parties on July 27, 2015. Finally, the SH also provided us with a copy of the letter addressed to the SHQ by the CMHC, confirming that the AccèsLogis Montréal program is now included in the agreement for investment in affordable housing. In this letter, the CMHC reminds us that, although the SHQ may enter into arrangements with third parties, such as municipalities, to carry out certain responsibilities under the agreement, the SHQ remains solely responsible to the

¹² Also includes social housing.

CMHC, without the CMHC having to deal with the third parties. As a result, the evidence we have obtained confirms that the SH is directly accountable to the SHQ and not to the CMHC.

However, the last extension of the agreement between the SHQ and the CMHC for investment in affordable housing ended on March 31, 2019, and the agreement has yet to be renewed. An agreement for investment in affordable housing is currently under negotiation, but in the meantime, the SHQ can no longer submit new projects to the CMHC, which is likely to have repercussions for the City. According to the information obtained, the SHQ must instead complete projects already under way. It must also ensure that the projects remain affordable for 10 years, so a follow-up is required for this period. In addition, as part of the negotiations, discussions are under way with the CMHC to streamline the reporting process that will eventually be carried out by the SH for the SHQ.

Considering the municipal administration's priority to complete the development of 12,000 social and affordable housing units by 2021, namely 6,000 social and community housing units and 6,000 affordable housing units, we are of the opinion that this situation takes on even more importance as the development of these housing units could be slowed down. The SH must therefore remain vigilant with regard to how this situation evolves.

RECOMMENDATION

3.1.2.B. We recommend that the Service de l'habitation make the necessary representations to the Société d'habitation du Québec in order to know when the budgets will be available so as to keep up the pace of activities and avoid compromising the goal of attaining municipal objectives.

RESPONSE

3.1.2.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.1.3. Agreement Regarding the AccèsLogis Program for the Development of Non-Profit Cooperative Housing

3.1.3.A. Background and Findings

It is important to note that “*Ville de Montréal may, without the Minister’s authorization (MAMH), grant a loan guarantee in the administration of a program under section 56.4 of the Act respecting the Société d’habitation du Québec.*”

New Responsibilities

Since the AccèsLogis Montréal program came into force, adopted by the urban agglomeration council in December 2017, the City provides assistance in the form of loan guarantees for projects deemed eligible by the SH. To do so, the City had to negotiate and conclude a framework financing agreement with an approved lender. According to the information recorded in the decision-making summary, a call for interest was issued and the responses received from the institutions were evaluated by a selection committee based on the following criteria:

- Understanding of the mandate and the issues;
- Experience and expertise of the financial institution with similar projects;
- Experience and expertise of the staff assigned to the mandate;
- Any additional elements that could improve the funding structure according to the specific needs of the assistance program.

As noted earlier, in addition to guaranteeing loans to bodies throughout the construction phase, the City will subsequently be required to guarantee the loans for an operating period of 35 years.

Scope of the Projects Targeted by the Framework Agreement

The framework agreement reached with the approved lender indicates that the financing covers the construction of approximately 950 social housing units.

Consequently, in order to apply this framework agreement, the SH first had to define at which stage of the AccèsLogis program (PA, Conditional Commitment (CC), Definitive Commitment (DC), Interest Adjustment Date (IAD) the units would be included in the scope of this new program, since eligible projects were already under way under the AccèsLogis Québec program. The City’s executive committee therefore approved by resolution the dates and stages at which the projects will be included in the scope of the AccèsLogis Montréal program.^{13,14} Thus, projects that

¹³ Order 5 of *By-law 02-102* adopted by the executive committee on June 5, 2019 (repeals order 3 of the same by-law adopted on April 23, 2018).

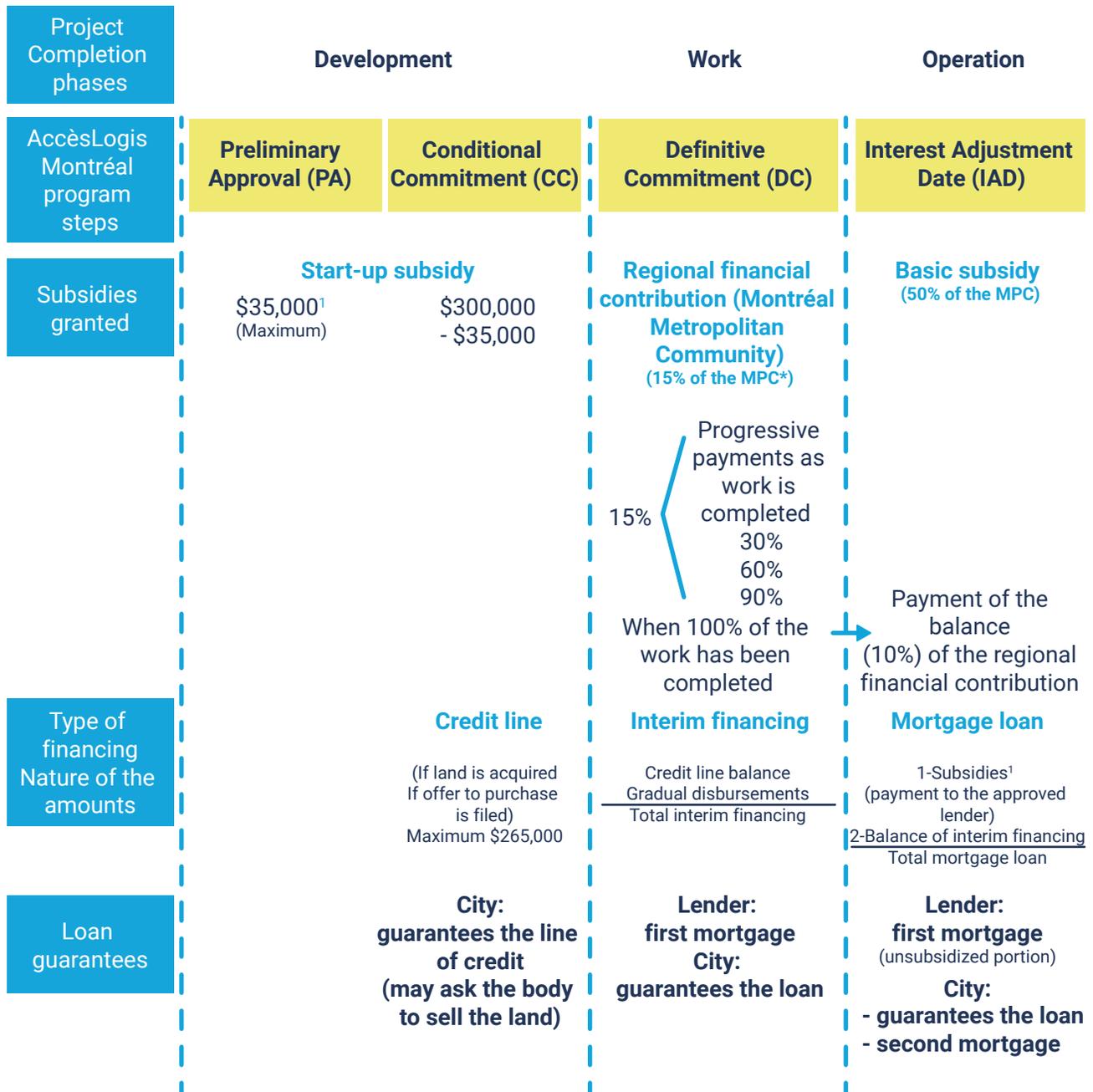
¹⁴ Order 7 of *By-law 02-102* adopted by the executive committee on June 26, 2019.

obtained PA between April 24, 2018, and June 30, 2019, will be part of the scope of the AccèsLogis Montréal program, and the new *By-law (02-102B)* has been amended to this effect. It should be noted that the SH did not grant a PA between March 1, 2017, and April 24, 2018. Projects that were already under way before March 1 are therefore covered by the AccèsLogis Québec program, as are projects that were deemed eligible as of July 1, 2019, since the City has not received any new budget to date under the sectoral agreement with the SHQ.

Operation of Bonding and Financing

Before presenting a portrait of the projects involved, we will briefly describe how bonding and financing works. As for the City's guarantee of loans, it is linked to the project implementation phases, the AccèsLogis program stages (PA, CC, DC and IAD) and the type of financing. In Figure 2, we present the balance of these three elements.

Figure 2 – Operation of Loan Guarantees



¹ SHQ budget transferred to the City
 * MPC: Maximum Permissible Costs

Types of Financing

According to this figure, a body can benefit from a start-up grant to help it cover certain expenses such as the preparation of the file. A maximum amount of \$35,000 comes from the SHQ budgets transferred to the City, and the approved lender does not advance any money at this stage. It is possible for the City to guarantee loans to bodies as early as the CC stage if the body is acquiring land or making a deposit on an offer to purchase a building at this stage, and the money advanced by the lender will come from a line of credit. Once the CC stage is completed, it is at the DC stage that the approved lender will advance the necessary amounts to the body as progressive disbursements so that the body can make payments to the contractor as the work progresses. At this stage, the progressive disbursements will be in the form of a variable rate loan and the loan will also include any balance on the line of credit. This is referred to as “interim financing.” At this stage, the City also notifies the approved lender that it approves the project and informs the lender of the amount of the promised subsidy. Once the work has been completed and found to be compliant, the IAD stage is triggered to determine when the interim financing will be converted into a mortgage loan. The mortgage loan (net of the amount of the City’s subsidy) will be at a fixed rate over a 35-year amortization period. The subsidy will be paid directly to the approved lender within 180 days following the IAD.

The mortgage loan will also include an amount (a provision) corresponding to 2.7% of the development costs of projects that could potentially experience financial difficulties. The approved lender will pay the amount to the City, which will then apply it to the contingency fund.

The profile of projects under the AccèsLogis Montréal program (based on the information received from the SH) is presented in Table 2.

Table 2 – **Portrait of AccèsLogis Montréal Projects as of October 31, 2019 (in Millions of Dollars)**

ACCÈSLOGIS MONTRÉAL STAGES	NUMBER OF PROJECTS	NUMBER OF UNITS	DEVELOPMENT COSTS^[1]	SUBSIDIES AMOUNTS^{[1] [2]}	GUARANTEED AMOUNTS
AMOUNTS COMMITTED FOR 2017–2018					
Preliminary Approval	1	86	16.7	8.8	
Conditional Commitment	6	239	71.1	31.1	1.3
Definitive Commitment	5	403	90.1	53.5	3.8
TOTAL 2017-2018	12	728	177.9	93.4	5.1
AMOUNTS COMMITTED FOR 2018–2019					
Preliminary Approval	5	259	59.2	33.5	-
Conditional Commitment	4	393	115.3	69.1	0.6
Definitive Commitment	1	24	8.3	6.5	0.4
TOTAL 2018-2019	10	676	182.8	109.1	1.0
GRAND TOTAL	22	1,404	360.7	202.5	6.1

^[1] Estimated amounts.

^[2] Includes the basic subsidies, the subsidies of the Montréal Metropolitan Community, additional subsidies and the social enhancement.

According to the loan agreement, the maximum total loan amount is \$150 million and the financial institution agrees to provide short-term financing (interim financing), a portion of which will be converted into long-term financing for an approximate amount of \$52.5 million (a mortgage loan), and the subsidies therefore total an estimated \$97.5 million. This assistance in the form of a loan guarantee applies only to the AccèsLogis Montréal program.

As indicated in Table 2, the estimated cost of completing eligible projects under way under the AccèsLogis Montréal program is approximately \$360.7 million. As of October 31, 2019, the global loans total approximately \$158.2 million, if we subtract the subsidies that the City plans to grant (\$360.7 million – \$202.5 million). As noted above, the maximum loan amount under the framework agreement is \$150 million, which is lower than the estimated aggregate loans to date. During the course of our audit, we discussed with the SH the possibility that the loan amount may be exceeded. The SH indicated that it is aware of this situation and is working to identify additional sources of funding. We are of the opinion that a financing agreement must be concluded as soon as possible to avoid hindering the completion of projects and thus help the municipal government achieve its social housing targets.

RECOMMENDATION

3.1.3.B. We recommend that the Service de l'habitation take the necessary measures to ensure that the Ville de Montréal concludes, at the appropriate time, an additional financing agreement with a financial institution to cover all units authorized under the AccèsLogis Montréal program, in order to ensure that the projects are carried out as planned.

RESPONSE

3.1.3.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.1.4. Agreement Regarding the Use of the Application for Financial Assistance, the Disbursement Management File and the Invoice File at the Ville de Montréal

3.1.4.A. Background and Findings

To enable the City to fully assume its new responsibilities and to ensure the rapid transfer of knowledge, an agreement was reached in June 2018 with the SHQ so that its tools could be used by the City. These tools concern the disbursement management file, the invoice file and the AFA and are used within the AccèsLogis program.

The AFA tool is an Excel file used to calculate the basic subsidy amount and to assess the project's viability. It includes formulas and manual entries. The file contains basic parameters such as Maximum Permissible Costs (MPC), interest rates, tax rates and median rents.¹⁵ The number of units per typology, the unit component, the production costs, the estimated operating costs and the community contributions are entered for the purpose of calculating the amount of the basic subsidy. It should be noted that the model takes into account the amounts required for the mortgage reserve and the contingency fund. Once all of these items have been calculated, the file calculates the market rent¹⁶ and this rent is compared with the median rents.

3.2. Activities Arising from the New Responsibilities and Evaluation of the Resources

3.2.A. Background and Findings

In order for the SH to properly fulfil its new responsibilities, it must not only understand them, but also plan the activities that arise from them. An assessment of staffing levels, required expertise and budgets is therefore necessary to ensure that processes are properly carried out while providing the appropriate controls.

During our audit, we obtained the decision-making summary, which the urban agglomeration council had approved in December 2017, and which set out the request for an additional operating budget for the addition of resources and the use of professional services, as well as the analyses supporting these two elements. To follow up on this information, we assessed the extent to which the SH had conducted analyses to support its requests. We also assessed the extent to which the SH had reviewed its processes to meet its new responsibilities and its activities resulting from the applicable agreements described in section 3.1 of this report.

It must be noted that, at this stage, our review of the decision-making summary did not reveal any information on the nature of the positions and professional services, nor the associated activities. In short, after reading this summary, it is difficult to understand why it is necessary to allocate an additional operating budget. As such, the authorities do not have all the useful and relevant information they need to make decisions.

¹⁵ Rent based on the rents paid by households occupying a dwelling in the rental market of a given census agglomeration. It is the rent that is halfway between the lowest and highest market rents. (Chapter 1 – Definitions and interpretations of the AccèsLogis Montréal project development and completion guide).

¹⁶ The rent that will be in effect once the project has been completed and that will make it possible to meet all the budgetary standards of the *Programme d'aide à la réalisation de logements coopératifs et à but non lucratif*, without generating either a profit or a loss. (Chapter 1 – Definitions and interpretations of the AccèsLogis Montréal project development and completion guide).

Identification of the New Activities Arising from the Applicable Agreements and Evaluation of the Resources Within the Service de l'habitation

Programs Development

According to information obtained from the SH, temporary resources have been allocated within the Division de la planification des stratégies résidentielles to review some of these municipal programs (this aspect will be discussed in more detail in section 3.3. of this report). We noted, however, that the analyses produced by the SH do not include an estimate of the time required to review existing municipal programs or to create new programs.

Loan Guarantees

The loan agreement with the financial institution was concluded and resources have therefore already been allocated to this activity. However, the documents consulted do not indicate how much time should be allocated for following up on this agreement and for negotiating a new agreement in the coming years.

With respect to the guarantee of loans to bodies, the City must set up a contingency fund to have access to these sums in the event of problems involving projects under way. An analysis of the documents reveals that the SH is considering hiring an external firm to help it establish the loan guarantee (the provision). To date, although this activity has been identified by the SH and that *By-law 02-102B* contains a provision in this regard, the time required to set up this fund and how it will operate have not been assessed. As of the date of our report, the contingency fund had not been established.

Joint Monitoring Committee

According to the sectoral agreement with the SHQ, a joint monitoring committee composed of representatives of each of the parties (the City and the SHQ) and the Secrétariat à la région métropolitaine¹⁷ is to be set up. The mandate of this committee is to produce a report three years after the effective date of the sectoral agreement with the SHQ, i.e., by March 31, 2020, as well as an evaluation of the SHQ and its programs after a five-year period, i.e., after March 31, 2022. Based on the information collected, the committee also discusses aspects that need to be clarified or put into place, such as accountability models. The joint committee's monitoring activity was not identified within the analyses carried out by the SH, and the time required to complete this activity has not been estimated.

¹⁷ Under the authority of the Minister Responsible for the Metropolis and the Montréal Region and the Minister of Affaires municipales et de l'Habitation.

Accountability

The sectoral agreement with the SHQ refers to accountability requirements with respect to the CMHC's new agreement for investment in affordable housing. The SH will have to produce the information necessary for the accountability report that the SHQ has to produce for the CMHC. The SH has already produced certain documents relating to the accountability arising from the agreement with the SHQ. The new accountability to the CMHC has been taken into consideration, as has the time required. In terms of accountability with respect to the sectoral agreement with the SHQ, this aspect was not identified in the SH's analysis. Accountability will be discussed at greater length in section 3.5 of the report.

Monitoring Projects Under Way

As the City becomes responsible for monitoring projects under way, this new activity involves, among other things, establishing a model operating agreement and monitoring the financial soundness of bodies and buildings. The SH has identified operational management monitoring within its analyses and sub-activities as:

- Reviewing financial statements;
- Support;
- Monitoring operating agreements;
- Recovery (in the event of financial difficulties);
- Tracking disbursements.

The SH is considering having these activities performed by an external specialized firm, and a time estimate was established. However, the analyses do not include the time required to prepare an offer of services, to establish the operating mode with respect to services, to supervise the services and to the accountability on this type of project.

Financial Soundness of the Bodies

An analysis of the documents obtained from the SH shows that, although the risk associated with guaranteeing projects has been identified, validation of the financial soundness of the bodies is not mentioned anywhere in these documents. Since such guarantees require that the City commit large sums of money, we expected this aspect to be highlighted. Indeed, it is important that the SH ensure that this aspect is part of its processes and that it has controls that allow it to assess a body's financial soundness. Although the SH has identified an activity to analyze bodies' financial statements, we noted that it is related to monitoring operations, whereas our concern is more upstream. In our opinion, the SH must address this concern and adopt control mechanisms to ensure that, from a project's outset, it is in a position to assess the financial soundness of the body.

Since loans to bodies are fully guaranteed by the City, there is a significant risk of cash outflows if the appropriate controls are not in place. This aspect will be discussed in more detail in section 3.4. of this report.

In conclusion, the SH should ensure that it has all the required expertise and that it appoints specialized resources in real estate management through increased knowledge of building quality, as well as in-depth knowledge of financial analysis, in order to promote the sound management of social projects and the sustainability of their social mandate.

RECOMMENDATION

3.2.B. We recommend that the Service de l'habitation provide all relevant information in the decision-making summaries to justify resource requirements, in terms of numbers, expertise and costs, necessary to adequately assume its new responsibilities so that the bodies are able to make informed decisions.

RESPONSE

3.2.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.2.C. We recommend that the Service de l'habitation ensure that the resources involved in AccèsLogis Montréal projects have all the necessary expertise in finance and real estate management to promote the sustainability of projects throughout their life cycle.

RESPONSE

3.2.C. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.3. Compliance with Applicable Agreement Requirements

During our audit work, we identified the key requirements under the various applicable agreements and sought evidence that the City was complying or was in the process of complying with them through the SH.

3.3.1. Agreement Regarding the Transfer of Budgets and Responsibility for Housing

3.3.1.A. Background and Findings

Most of the requirements that the City must meet are enshrined in the sectoral agreement with the SHQ. It is important for the SH to be certain that its processes are structured to ensure compliance and that it exercises appropriate controls in order to obtain the expected budgets and demonstrate its reliability as a partner.

Budget Transfer Requirements

In March 2018, the Québec government adopted a decree authorizing the SHQ to implement a program to finance the City's municipal programs. It is also following this decree that the transfer of budgets to the City was made possible through the sectoral agreement with the SHQ.

It is important to specify once again that there have been three budget periods to date (2017–2018, 2018–2019 and 2019–2020) and that the SHQ allocated budgets to all programs during these periods, with the exception of the AccèsLogis Montréal program for 2019–2020.

Pursuant to the sectoral agreement with the SHQ, the City must give the SHQ the breakdown of the budgets it intends to table no later than 30 days following the communication of the commitment budget received from the SHQ. We were able to obtain the budget breakdown for the RQP for the three budget periods (2017–2018, 2018–2019 and 2019–2020), which includes five subprograms.

The City must also give the SHQ its budget forecasts for the following year no later than July 1 annually and reconfirm the accuracy of the forecasts by November 15 of the same year. We therefore sought official correspondence between the SH and the SHQ demonstrating that the City meets these requirements. We were able to obtain from the SH the email sent in November 2019 to the SHQ regarding the five-year forecasts.

Requirements Regarding the Adoption of the Housing Programs

The program to fund the City's municipal programs came into force when the decree was issued in April 2018, stipulating that municipal programs must indicate the objectives they seek to achieve, as well as the eligibility and selection criteria for recipients and the nature and terms and conditions of the financial assistance granted. Thus, program development must take these criteria into consideration for the programs to be eligible.

The sectoral agreement with the SHQ provides for the following requirements with respect to the City's municipal programs:

AccèsLogis Montréal

The sectoral agreement with the SHQ does not specify a timeframe to develop this program. Despite this fact, the SH nevertheless amended certain aspects of *By-law 02-102* (AccèsLogis Québec) in December 2017 to improve project viability. These aspects will be discussed in section 3.4. of this report.

Renovation Québec

For the City to be able to receive its share of the budget for this program, the sectoral agreement with the SHQ provided that it had to adopt its municipal program within 12 months following the effective date of a program allowing the payment of budgets to the City (the date of publication of the decree referred to above).

The SH stated that the 12-month timeline was met because it had already reviewed the various programs in 2014, when the SHQ had stopped funding them. In fact, the city council had approved these programs in October 2014. At our request, the SH sent us confirmation from the SHQ that it recognized that the programs comply with the government's orientations and objectives and thus the timeline. At the time this audit report was produced, the SH informed us that it was reviewing the programs in order to better adapt them to Montréal's reality. In fact, we have obtained the decision-making summaries concerning these programs that will be adopted shortly.

Residential Adaptation

According to the sectoral agreement with the SHQ, the City must adopt its municipal program no later than 24 months following the effective date of the funding program (the date of publication of the decree referred to above).

This program has been reviewed by the SH in order to adapt it to Montréal's reality, since these residential adaptations affect more tenants than owners. At the time of producing this audit report, we obtained the decision-making summary for the new program, which should be approved shortly by city council and which is scheduled to come into effect on April 1, 2020.

Since the City has committed to managing budgets that will take into account the government's orientations and objectives and to respecting the timelines set out in the sectoral agreement with the SHQ, we believe that the SH must meet this requirement. Although we have, at our request, obtained confirmation from the SHQ for the RQP programs adopted in 2014, we believe that this should also be done for the new RQP and RAAP programs, so that the City does not find itself at risk of not obtaining budgets.

Requirements Regarding the Joint Monitoring Committee

The sectoral agreement with the SHQ provided for the creation of a joint monitoring committee. As previously stated, the mandate of this committee includes submitting an assessment three years after the effective date of the agreement and conducting an evaluation of the agreement and the programs after five years.

As a follow-up to the information obtained from the SH, the monitoring committee also serves to clarify and implement certain aspects of the agreement with the SHQ. Although the SH provided us with a document summarizing the points discussed by this committee's representatives, we did not obtain any formal summary or minutes in support of these meetings. In our opinion, the points discussed and the decisions made need to be formally recorded in writing.

RECOMMENDATION

3.3.1.B. We recommend that the Service de l'habitation obtain confirmation from the Société d'habitation du Québec that the new municipal programs take into account the government's orientations and objectives so as not to jeopardize the payment of budgets to Ville de Montréal.

RESPONSE

3.3.1.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.3.1.C. We recommend that the Service de l'habitation produce minutes of the meetings of the joint monitoring committee, created pursuant to the sectoral agreement with the Société d'habitation du Québec, in order to record in writing the points agreed upon at each meeting.

RESPONSE

3.3.1.C. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.3.2. Agreement Regarding the AccèsLogis Program for the Development of Non-Profit Cooperative Housing Units

3.3.2.A. Background and Findings

According to this agreement, the City must satisfy certain requirements in terms of sending documents, including forwarding the administrative procedures manual to the approved lender as soon as possible. In addition, with regard to financing projects eligible for the AccèsLogis Montréal program, the agreement stipulates the following requirements:

- At the DC stage, the City must send the financial institution a copy of the commitment specifying the amount of the subsidy promised to the body;
- The City must authorize all financial disbursements;
- The City must verify the progress of construction work and authorize progressive disbursements while ensuring that they are allocated to payments for all construction work performed pursuant to the project;
- Upon completion of the work, the City must obtain a document from an architect certifying the substantial completion of the work and communicate the IAD for the purpose of setting the mortgage loan. This date cannot be modified thereafter;
- Finally, the City must provide the subsidy to the financial institution within 180 days following the IAD.

The City must notify the approved lender of any failure by an owner to fully comply with the terms of the program or of any situation involving false or misleading representation of which it is aware. It goes without saying that the City is responsible for paying any amount in default on the part of the body as a result of the loan guarantee it assumes.

Further to the information obtained from the SH, we obtained evidence that an administrative procedures manual had been forwarded to the approved lender. This manual contains the main stakeholders, a description of the operation of the AccèsLogis Montréal program, the requirement for the body to enter into an operating agreement with the City, as well as a high-level description of the requirements stipulated in this agreement. It also describes the responsibilities of the approved lender, the stages of project implementation and financing as well as a description of the role of the notary.

As of October 31, 2019, no projects had been completed.

3.4. Viability of the Projects Eligible for the AccèsLogis Montréal Program

The City provides loan guarantees to the bodies throughout the project and during the operational period, over a period of up to 35 years. It is therefore important for the City to ensure that these projects are viable in order to make sound use of the budgets transferred by the SHQ.

For a project to be considered viable according to the SHQ's criteria, the market rent must be between 75% and 95% of the median rent. This requirement is intended to ensure that the project's development and operating costs make it possible to obtain rents for residential units that are accessible to low- and moderate-income tenants. Among the tools used by the AccèsLogis program, the AFA is used to calculate the viability of projects and to reconfirm it at each stage of the program (the PA, the CC and the DC).

A rigorous viability assessment must therefore be performed to detect the financial stakes of the projects as early as possible, limit financial losses for the City and avoid tarnishing its reputation due to an underestimation of project risks since public funds are at stake.

3.4.1. Past Projects Carried Out on the Territory of Ville de Montréal

3.4.1.A. Background and Findings

Considering the importance of rigorously assessing viability, we believe it is essential to have knowledge of past projects that have experienced viability issues under the AccèsLogis Québec program and to identify the reasons for such issues. Such an exercise should make it possible to make the necessary corrections within the AccèsLogis Montréal program, if need be, to be able to detect projects experiencing financial difficulties at the right time to ultimately prevent the City from guaranteeing loans to these bodies. Since there are several stages in the program and time elapses throughout the life cycle of the projects, their viability must be periodically reassessed. In order to determine project viability, it is essential for the SH to have not only knowledge of the projects experiencing difficulty, but also financial expertise in the management of real estate projects and, consequently, to implement the appropriate control mechanisms.

One of the factors that promotes the sound management of projects eligible for the AccèsLogis Montréal program is knowledge of the projects carried out on the City's territory. Therefore, during our audit, we asked the SH whether it was in fact aware of projects that had experienced financial difficulties under the AccèsLogis Québec.

According to the information obtained, in 2017, the SH analyzed the projects experiencing difficulty under AccèsLogis Québec, following receipt by the SHQ of a list indicating the projects for which financial assistance had been granted or for which measures had been taken (e.g., takeover, sale of a building).

At our request, we obtained an updated list of projects from the SHQ that had experienced financial difficulties, and this list was given to the SH.

We then compared the list of projects eligible for the AccèsLogis Montréal program with the list obtained from the SHQ to assess the extent to which bodies under the new program had encountered financial difficulties in the past. We found that 2 bodies out of 22 had experienced difficulties with their projects in the past. In our opinion, the SH should inquire about this information to assess the extent to which bodies submitting projects may expose the City to financial risks.

As mentioned previously, it is essential for the SH to be familiar with all of the variables with respect to past projects and, similarly, to know the reasons that led to additional financial assistance or the sale or transfer of a building for past projects, in order to derive variable-based statistics (e.g., a Technical Resource Group (TRG) involved, the types of organizations (NPO or COOP), the types of projects (e.g., new construction, purchase, renovation, transformation and recycling). The SH already has data for previous years, i.e., the file obtained in 2017 (containing decisions on additional aid up to October 2016) and the file received in 2019 (containing decisions made by the SHQ up to March 2019) from the SHQ. Knowledge of projects experiencing difficulties must also be kept up to date, and the SH must continue this practice. In our opinion, the SH must therefore create a database of past projects under the AccèsLogis Québec program and projects under the AccèsLogis Montréal program, in order to develop the knowledge it needs to manage risks at various stages of the process (e.g., when establishing the eligibility of the body and the project, during the continuation of a project) and also to enable it to act proactively when similar situations arise.

RECOMMENDATION

3.4.1.B. We recommend that the Service de l'habitation build up a database of existing and future projects on its territory, regardless of which program (AccèsLogis Québec or AccèsLogis Montréal) they fall under, to be able to proactively carry out relevant analyses with respect to risk management throughout the project cycle.

RESPONSE

3.4.1.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.4.2. Parameter Changes

3.4.2.A. Background and Findings

To adapt the program to Montréal's reality and promote project viability, the SH modified the parameters when developing the AccèsLogis Montréal program. As part of our audit, we evaluated whether the SH's approach showed that Montréal issues had been taken into account with respect to the main parameters.

Maximum Permissible Costs

The AccèsLogis program does not impose a ceiling on the total cost of carrying out a project; however, for the purposes of calculating the subsidy, MPC are recognized. This is one of the parameters that has a direct impact on the amount of the subsidy granted by the City. During our audit, we were told that, according to the SHQ's program (AccèsLogis Québec), the MPC did not reflect the actual construction costs since the recognized amounts date back to 2009. On this basis, the amounts granted in subsidies were therefore underestimated and the development of social housing units was slowed down, since achieving project viability is more difficult.

Indeed, viability is calculated using the AFA tool, as mentioned previously. For the purpose of this calculation, the actual implementation costs are taken into account and the calculated subsidy reduces the amount. The more the amount of the subsidy is underestimated, the more the portion of the mortgage that the body will have to pay will increase. The result is higher operating costs due to the interest charges. Mathematically, viability will be affected because of the ties between these elements.

Considering this situation, as soon as the responsibilities were transferred to the City, the SH made it a priority to review the MPC amounts and these were initially increased by 24%. The MPC amounts were increased a second time in 2018 to take into account the impact of the increase in interest rates on the market, to reflect the fact that construction costs are higher when a building counts seven floors or more, and to introduce a specific MPC category (a central high-density zone) to reflect the fact that completion costs are higher in certain sectors of the City. Finally, the MPC were increased to reflect an increase in development costs.

The changes made should promote project viability.

Minimum Threshold of Units

The distribution of implementation and operating costs is affected by the number of units within a project, which also affects project viability.

The SH therefore revised the minimum threshold of units that a project must contain to improve viability. For Component 1¹⁸ projects, two thresholds have been established depending on whether or not the project includes elevators. For Component 2¹⁸ projects, a threshold was also established, since the clientele served (people aged 75 and over with slight loss of autonomy) means that elevators are required, resulting in higher construction costs (stricter construction standards).

The changes made should promote project viability.

Median Rents

Median rents¹⁹ are not covered by the sectoral agreement with the SHQ. Median rents are established by the CMHC, and the SHQ forwards them to the SH, which then updates them in the AccèsLogis Montréal program. However, during our audit, the SH informed us of the limits of the amounts determined. The median rent amount is the same for the entire territory of the City and, as such, does not take into consideration the fluctuation of rents from one sector to the next. The SH notes incongruities at the project level, since a median rent, for example, can end up being too high in one area with the result that the market rent ends up representing less than 75% of the median rents. Construction costs tend to be high in areas where real estate development is booming, and social housing units will therefore also cost more to build when a project takes place in these areas. In these situations, the market rent calculated using the AFA will be higher. Therefore, even if the market rent is between 75% and 95% of the median rent as a result of increasing median rents to take the impact of sector prices into account, the AFA calculation model has limitations. Indeed, social housing is intended for a clientele that does not have the means to pay high rents. In order for this clientele to be able to live in these sectors, they must benefit from additional assistance to help them pay the cost of rent, such as the Rent Supplement Program (RSP).²⁰

¹⁸ Refer to Appendix 5.1.

¹⁹ Established for the Montréal agglomeration.

²⁰ Program that helps low-income households to live in private-sector rental dwellings or dwellings belonging to housing cooperatives, non-profit organizations or housing authorities while paying a rent similar to that for LRH.

Subsidies

Several types of subsidies can be granted. Note that subsidies are paid to the approved lender only once construction is completed.

Start-up Subsidy

One aspect that can significantly increase the cost of a project is the presence of contaminants in the soil or in an existing building. With the adoption of the AccèsLogis Montréal program, the SH introduced a start-up subsidy of up to \$35,000 at the PA stage. The amounts granted under this type of subsidy originate from the budgets transferred by the SHQ. The subsidy is therefore aimed at identifying the presence of contaminants as early as possible. If the project does not go ahead, the sums thus paid are lost. It should be noted that the amount of this subsidy is not advanced by the approved lender and the City therefore does not guarantee any amount at this stage.

The changes made should promote project viability.

Additional and Exceptional Subsidies

Additional subsidies can be added to enhance projects deemed non-viable. As previously stated, a project is not viable according to SHQ parameters when the market rents are either less than 75% or more than 95% of the median rents.

ADDITIONAL SUBSIDY

Where the basic subsidy (among others) is not sufficient, the additional subsidy may be granted to make the project viable. This subsidy was initially set at a maximum of 15% of the basic subsidy. Subsequently, the SH increased the rate to a maximum of 35%. Specific criteria were expanded to recognize that some types of projects have higher implementation costs than others (e.g., the existence of underground parking).

EXCEPTIONAL SUBSIDY

When neither the basic subsidy nor the additional subsidy makes the project viable, an exceptional subsidy may be awarded up to a maximum of 35% of the basic and additional subsidies. This subsidy is possible in certain specific cases and must be approved by the urban agglomeration council. According to information obtained from the SH, there is no exceptional subsidy for projects under the AccèsLogis Montréal.

RENOVATION QUÉBEC PROGRAM SUBSIDY

According to the information obtained, part of the RQP subsidies may be allocated to the AccèsLogis Montréal program if an amount is designated as “social enhancements” when the RQP budget is allocated.

OTHER SUBSIDIES

Other subsidies may be added to the basic subsidy, including the following:

- *Heritage Subsidy*: in the case where the building involves heritage elements (new subsidy);
- *Rent Supplement (RSP)*: refer to the footnote number 20.

If, however, the project is not viable once both types of subsidies (additional and exceptional) are considered, solutions must be contemplated before taking additional steps in order to mitigate the City’s risk of suffering financial losses. Viability is validated at each stage of the AccèsLogis program (PA, CC and DC). When the SH determines that the project will not be viable after having considered both types of subsidies, the result is that the project cannot continue in its current form.

Thus, the earlier the decision is made not to proceed with a project, the less the City will be called upon to make a cash outlay if the bond is to be executed. According to the information obtained from the SH, before abandoning a project, it will try, for example, to ensure that additional community contributions are granted or to find another body with which it will be possible to continue the project.

3.4.3. Identification and Effectiveness of the Controls

3.4.3.A. Background and Findings

During our audit, we sought assurance that key controls were in place to validate the financial soundness of the bodies selected and mitigate the risk of cost overruns throughout the stages of the program, thereby promoting project viability. It should also be noted that the SH modified the parameters of the AccèsLogis Montréal program in order to promote project viability.

We will describe the controls that we believe are important to ensure project viability. These may be new controls put in place following the transfer of the new responsibilities as well as certain controls that already existed since the City was acting as the SHQ's mandatary, which, given their nature, are even more important in the context of guaranteeing loans.

In addition, during the course of our audit, we assessed the effectiveness of the controls we selected for the sampled projects. These controls are presented according to the major stages of the AccèsLogis program.

Our sample comprises four projects, two in Turnkey (TK) mode and two in lump sum mode (see Appendix 5.1 for a description of each mode). Of the four projects selected, three were at the DC stage and pertain to the SHQ's 2017–2018 budget period. The fourth project was at the CC stage and pertain to the SHQ's 2018–2019 budget period. It should be noted at the outset that none of these four projects had reached the IAD stage, as the work had not been completed by September 20, 2019. Details of our sample are shown in Table 3.

**Table 3 – Sample
Data as of September 20, 2019
(in Millions of Dollars)**

PROJECTS AND BUDGET PERIOD – SOCIÉTÉ D'HABITATION DU QUÉBEC	PROGRAM STAGE	DELIVERY MODE	ESTIMATED COMPLETION COSTS	ESTIMATED BASIC AND MONTRÉAL METROPOLITAN COMMUNITY SUBSIDIES	ADDITIONAL SUBSIDY	PERCENTAGE OF TOTAL SUBSIDIES/COMPLETION COSTS
Project 1 2017-2018	Definitive Commitment	Turnkey	12,983	6,684	905	58.4%
Project 2 2017-2018	Definitive Commitment	Turnkey	3,555	1,872	210	58.6%
Project 3 2017-2018	Definitive Commitment	Lump sum	12,275	7,979	-	65%
Project 4 2018-2019	Conditional Commitment	Lump sum	5,478	2,740	390	57.1%
TOTAL			34,291	19,275	1,505	60.1%

Preliminary Approval

Support of Bodies by a Technical Resource Group

Under the AccèsLogis Montréal program, bodies must be supported by a TRG, whose role is to provide the necessary support and expertise in the development, presentation and implementation of projects. To do so, bodies must have concluded an agreement with one of the four TRGs recognized on the City's territory as well as by the SHQ.

In the course of our work, we sought evidence that agreements had been reached between the bodies and TRGs. We were able to obtain such agreements for all the selected bodies, and we noted that they benefited from the services of a TRG recognized by the City. However, we observed that one project in our sample (project 4) had been rejected in the past because of viability issues when it was first submitted under the AccèsLogis Québec program. The project (the project 4) was modified and resubmitted under the AccèsLogis Montréal program, but the agreement with the TRG was not updated even though it was several years old. We believe that a new agreement should have been issued to reflect both parties' current commitments.

Recommendation of the Liaison Committee

From the outset, in order to determine the eligibility of a proposed project, a liaison committee conducts an analysis of the project from several angles. The project is evaluated in terms of municipal priorities, response to needs, quality (e.g., the group driving the project, the quality of the site, the sector and the building) and the conditions under which it will be carried out. The assessment is carried out at this stage by the committee, with a view to recommending whether or not to continue the project.

For two of the four projects (projects 1 and 2), we were able to obtain the admissibility sheets, indicating the results of the project evaluation performed by the liaison committee. For another project (project 3), a new body was chosen and it seems no admissibility sheet was analyzed. The only sheets available were those concerning the previous body and the part concerning the liaison committee had not been completed. Finally, for yet another project (project 4), the admissibility sheet is the one that was produced under the AccèsLogis Québec program when it was submitted before being rejected under this program. Although admissibility sheets were obtained, we were unable to locate the documents containing the content of the elements discussed by the liaison committee that supported the evaluation of the various elements of the file in question.

The liaison committee's review of projects only takes place at the PA stage, and, based on the information obtained, this committee focuses more on the aspect of social housing development, such as assessing the location of a site in an area due to the scarcity and cost of land and offers to purchase that are valid for short periods of time. The SH also tells us that the bodies' financial soundness is not an aspect that is necessarily analyzed, except for Component 3 projects, which, because of the clientele served, do not involve many units but are more costly due to the security mechanisms that such projects require. We asked the SH about the composition of the committee membership; based on the information we received, we noted that they are internal members who work within different administrative units of the SH. Considering the magnitude of the delivery costs as of October 31, 2019, (\$360.7 million) and the estimated amounts for which the City will be called upon to provide guarantees (\$158.2 million), we believe that a review of social housing projects under the AccèsLogis Montréal program should be carried out by an independent committee at each stage of the program. The City has a governance framework in place for major projects, and it is expected that it will be reviewed with a view to expanding the scope based on various operating parameters to be determined not only for large-scale projects but also for smaller-scale projects. We believe that AccèsLogis Montréal projects should be considered within the scope of this framework, in order to assess the financial risks and risks inherent to real estate projects on a case-by-case basis.

Bodies' Experience in Real Estate Management

At this stage, although the body is accompanied by a TRG, the SH assesses whether the body and its directors have relevant experience and expertise with real estate projects to foster sound project management.

During our work, we therefore tracked down the relevant documentation in this regard and we noted that this analysis was carried out for all the projects making up our sample. For one project (project 3), it was identified that the body did not have the resources to manage a Component 3 clientele, and it was therefore replaced (see Appendix 5.1 for more details). For the three remaining projects, the bodies have experience and expertise.

Obtaining and Analyzing Bodies' Financial Statements

An analysis of the financial statements is required to assess the financial soundness of the bodies and evaluate the extent to which their situation represents a risk for the City because it guarantees their loans.

During our audit, we reviewed the project documents to trace the bodies' financial statements. For the four projects making up the sample, there were no financial statements on file. Although we obtained financial statements for one of the projects (project 3) at our request, we noted that financial statements are not systematically obtained.

We are of the opinion that, because of the magnitude of the loans that the City is called upon to guarantee, there is a need for the SH to obtain the financial statements to be in a position to analyze the bodies' financial soundness. Moreover, the analysis of the financial statements should also allow the SH to assess the extent to which the financial ratios recognized in the field of financial management are respected or acceptable, especially since it is the City that assumes the lion's share of the financial risks. Our concern is all the more justified since, in the case of two bodies, the analysis of the documents (comparative analysis with the list obtained from the SHQ) reveals issues involving past financial difficulties.

Environmental Assessment and Characterization Report

In order for projects to comply with environmental regulations, the bodies must provide an environmental assessment and characterization report pursuant to the requirements of the AccèsLogis Montréal program. Since the presence of contaminants can lead to higher construction costs, it is important that this aspect be known and assessed early on in the project implementation process.

As part of our audit, we sought evidence that such studies had been carried out and we can conclude that such studies were obtained for all of the projects in our sample.

Signing of a Letter of Intent between the Developer and the Technical Resource Group

In the case of a TK project, a letter of intent must be signed between the developer and the TRG in order to establish the cost of carrying out the project and to formalize both parties' commitment pursuant to the requirements of the AccèsLogis Montréal program.

In the case of the two projects included in our sample that will be carried out in TK mode (projects 1 and 2), we were able to obtain copies of the letters of intent.

Conditional Commitment

Expert Report – Soil Remediation and Decontamination Certificate

If contaminants are present, it is important to assess their concentration to avoid incurring considerable costs and to ensure compliance with the applicable laws when developing social residential housing. According to the requirements of the AccèsLogis Montréal program, an expert report must be obtained.

We were able to obtain soil remediation reports and decontamination certificates for the four selected projects.

Comparison of Turnkey Implementation Costs with Tenders for Similar Projects

Where it is anticipated that the work will be carried out in TK mode, the SH will ensure that the costs of carrying out the project would not be higher than the costs obtained under a lowest bidder process for a similar project.

Following the file review for the two projects carried out in TK mode (projects 1 and 2), we traced the analyses intended to demonstrate that the developer's proposed implementation cost would not be higher than a similar project carried out on a lump sum basis. However, we were not able to trace the basis of calculations. The implementation costs are lower than for similar projects carried out on a lump sum basis. We believe that the source of the information and the basis of calculation should be clearly indicated in the file.

Obtaining the Market Value Assessment Report

In order to ensure that land costs do not exceed market values in the case of projects carried out on a lump sum basis (calls for tenders), a market value assessment report is requested from the bodies in accordance with the AccèsLogis program requirement.

Our sample included two projects (projects 3 and 4) on a lump sum basis and we were able to obtain the market value assessment report for these projects confirming that the costs are fair.

Definitive Commitment and Completion of the Work

Acquisition Agreement

An acquisition agreement must be concluded at this stage between the developer and the body when projects are carried out in TK mode, in accordance with the requirements of the AccèsLogis Montréal program.

As stated previously, two projects in our sample (projects 1 and 2) will be carried out in TK mode, and we were able to obtain the respective acquisition agreements for these projects.

Analysis of Bids

Where projects are carried out on a lump sum basis, the body must issue a public call for tenders for the project in order to meet the requirements of the assistance program. At the AFA level, the lowest bidder must be included while ensuring that the project remains viable.

Two projects (projects 3 and 4) in our sample will be carried out on a lump sum basis, as explained above. Based on the analysis of the bids, we were able to conclude that the lowest bidders were selected and that the AFA reflect these amounts for both projects.

Operating Agreement

According to the information obtained, an operating agreement must be concluded between the City and the body before the IAD, pursuant to program requirements. At the time this report was produced, two operating agreements had been concluded (for projects 1 and 2).

With Respect to the Preliminary Approval, Conditional Commitment and Definitive Commitment Stages

Accuracy of Grant Calculations

The AFA tool contains parameters that have been changed, such as the increased MPC. It also contains data that must be entered manually. In the course of our work, we wanted to ensure that the subsidies had been properly calculated and, as a result, we observed that some variables were not up to date, such as one project's median rents. Although this led to insignificant variances, we believe that the SH should provide controls to ensure that the amounts shown in the AFA, for MPC and median rents for example, are up to date. In addition, there should be provision to ensure the accuracy of all variables entered, such as the number of units, as well as the component. We are of the opinion that a review of these elements must be carried out and that a record of this review kept on file must demonstrate this in order to prevent significant errors from going unnoticed and consequently affecting the quality of the decisions made (e.g., the viability of a project, the calculation of a subsidy amount).

Validation of Project Viability

A project is considered viable if market rents represent a ratio of between 75% and 95% of median rents. For all the projects in our sample, we found that the ratio has been respected. To achieve this ratio, additional subsidies may be granted to projects to make them viable when necessary. Further to the analysis of the projects, we noted that, at the DC stage, the additional assistance identified complies with the provisions of the *By-law concerning subsidies for the development of non-profit cooperative housing (AccèsLogis Montréal)*. An additional subsidy was established for one project and a RQP subsidy was established for two projects. Finally, in the case of one project, no additional assistance was required to make it viable. However, we noted that for this project, a shortfall had been identified before it entered the DC stage. Although an additional and exceptional subsidy had been established, a shortfall nevertheless remained. In our opinion, the project

should not have gone through the subsequent stages under the AccèsLogis Montréal program. We discussed this situation with the SH, which mentioned that it decided to continue the project in order not to delay its progress, since it was aware that there would no longer be a shortfall and that the additional and exceptional subsidy would no longer be required because of the upcoming increased MPC. Although this is an exceptional situation, we believe that it would have been appropriate to document it, indicating that the MPC would soon be increased. Since the SH went ahead with the exceptional subsidy that was approved by the urban agglomeration council, the SH should ensure that the resolution authorizing it is repealed. As of the date of this report, the resolution had not been repealed. We believe that this may lead to confusion and oversights, as the information contained in the AFA prior to the DC stage will not reflect the real situation, since the additional and exceptional subsidy amounts are no longer available for other projects with viability issues.

Again, it should be noted that at the DC stage, subsidies are not paid out (the City will pay out the subsidies within 180 days of the IAD).

Reserve for Contingency Fund

We reported that a contingency fund will be set up to inject additional funds into projects under way that are experiencing financial difficulties. For each project, there will be an amount for the contingency fund that is taken into consideration in the AFA. This amount represents 2.7% of implementation costs. According to the information obtained, the percentage is the same as that of the SHQ. Considering the extent of the financial assistance that the SHQ had to inject into projects in operation before the transfer of responsibilities, we question the establishment of this value. Finally, it should be pointed out that, at the time this report was produced, the advisory committee for this fund had not yet been created, nor had the guidelines for the use of the funds and accountability been established. As the work will be completed shortly for certain projects, the administrative procedures must be established, because once the mortgage loans are set, the payment of the amount planned for this fund will be made by the approved lender to the City.

Within the AFA tool, a reserve of 2.7% in the contingency fund is expected to be included in the viability calculation and we wanted to ensure this in the course of our work. We noted that, for all of the projects in our sample, this reserve had been taken into account.

Approval of Program Steps

During the course of our work, we wanted to ensure that the letters confirming partial approvals that were sent to the bodies had been signed by the director of the SH since the *By-law concerning subsidies for the development of non-profit cooperative housing (AccèsLogis Montréal)* specifies that she is required to sign them. Further to our review of these notices, we noted that none of the projects

in our sample bear the signature of the director of the SH. In fact, these notices are all signed by a division head, which does not comply with the by-law's provisions.

We are of the opinion that notices to applicants must be authorized in accordance with the by-law in force.

Approval of the Bond and Disbursements

In the course of our work, we wanted to ensure that the guaranteed loans were duly authorized by the director of the SH, since the *By-law concerning subsidies for the development of non-profit cooperative housing (AccèsLogis Montréal)* stipulates that she is the one who has the power to authorize them, following a delegation of the executive committee's powers to her. However, our work revealed that the lender's agreement sent by the City does not bear the director's signature in all of the projects in our sample, which is contrary to the powers granted to her. Although internal controls have been established, we believe that official documents should only be signed by the duly authorized person to avoid any risk of unintentional errors.

We feel that the SH needs to review its process so that only the director is allowed to sign formal documents with the approved lender.

Other Items

Based on the information obtained and an analysis of the documents, we noted that the SH does not verify whether bodies are listed in the Register of Enterprises Ineligible for Public Contracts (REI). Furthermore, in the case of projects carried out in TK mode, we noted that the acquisition agreement includes a clause requiring the developer to provide a list of subcontractors in order to verify whether they are included in the REI. However, we noted that there is no clause indicating that the developer (projects 1 and 2) must not be listed in this register. According to the information obtained, the SH does not undertake any formal validating to ensure that bodies, contractors, developers and their subcontractors are not listed in the REI. In our opinion, this validation must be carried out, given the magnitude of the amounts required to carry out projects, in order to ensure sound management of the use of public funds. Furthermore, we are of the opinion that it would be preferable for the AccèsLogis Montréal program to include a section in its by-law stating that bodies must not be listed in the REI.

It should be noted that, as part of our work, we wanted to ensure that none of the bodies or contractors were listed in the REI and we are therefore able to conclude that, for the four projects in our sample, none of the parties involved had been entered in the register.

RECOMMENDATION

3.4.3.B. We recommend that the Service de l'habitation ensure that, for each project submitted to the AccèsLogis Montréal program, an up-to-date agreement with the Technical Resource Group responsible is kept in order to reflect the parties' obligations.

RESPONSE

3.4.3.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.4.3.C. We recommend that the Service de l'habitation ensure that all elements supporting the project's evaluation are documented using the admissibility sheet in order to demonstrate the transparency of the process.

RESPONSE

3.4.3.C. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.4.3.D. We recommend that the Direction générale analyze the impact of the new responsibilities conferred on the Ville de Montréal regarding the management of the AccèsLogis Montréal program and rule on the possibility that projects carried out under this program could be subject to the governance framework for municipal projects and asset programs in order to assess the financial risks inherent in these housing projects.

RESPONSE

3.4.3.D. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.4.3.E. We recommend that the Service de l'habitation obtain the bodies' financial statements, as early as the Preliminary Approval stage, in order to assess their financial soundness and avoid incurring potential financial losses for the Ville de Montréal.

RESPONSE

3.4.3.E. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.4.3.F. We recommend that the Service de l'habitation, for projects that will be carried out in Turnkey mode, establish a methodology to compare the costs established by developers for similar projects carried out in lump sum mode and to keep a record of this approach, in order to demonstrate that the implementation costs are not higher than those observed under a lump sum mode.

RESPONSE

3.4.3.F. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.4.3.G. We recommend that the Service de l'habitation ensure that variables affecting the calculation of subsidy amounts are monitored and that records are kept to provide assurance that these amounts are current and accurate.

RESPONSE

3.4.3.G. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.4.3.H. We recommend that the Service de l'habitation take the necessary measures to ensure that a project cannot go through a subsequent stage of the AccèsLogis Montréal program when it is not viable once the additional and exceptional subsidies have been considered, unless exceptional situations that may arise are documented, so that the City does not find itself in a position of guaranteeing loans for non-viable projects.

RESPONSE

3.4.3.H. The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.

RECOMMENDATION

3.4.3.I. We recommend that the Service de l'habitation assess whether the established percentage of 2.7% for the contingency fund is sufficient to ensure the validity of the amount established, given the financial difficulties of past projects.

RESPONSE

3.4.3.I. The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.

RECOMMENDATION

3.4.3.J. We recommend that the Service de l'habitation proceed with the creation of the contingency fund committee and subsequently establish guidelines as to the use of the funds and what is required in terms of fund accountability in order to consider all aspects of the fund in a timely manner.

RESPONSE

3.4.3.J. The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.

RECOMMENDATION

3.4.3.K. We recommend that the Service de l'habitation take the necessary measures within its processes to ensure that the director approves the amounts to be guaranteed by the Ville de Montréal, including the letters of approval, and to do so at all stages of the program when necessary, in order to ensure that the City guarantees loans to bodies only for viable projects at the appropriate decision-making level.

RESPONSE

3.4.3.K. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.4.3.L. We recommend that the Service de l'habitation ensure, with respect to all projects, that bodies and contractors do not appear on the Register of Enterprises Ineligible for Public Contracts in order to be able to deal with the Ville de Montréal and promote sound management of public funds.

RESPONSE

3.4.3.L. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.5. Accountability

3.5.A. Background and Findings

In this section, we will describe the various accountabilities required under the applicable agreements and assess the extent to which accountability reports have been issued in compliance with the agreements.

We will then describe the City's accountability mechanisms and assess the extent to which the objectives, through the transfer of powers and responsibilities, are being met.

3.5.1. Accountability under Applicable Agreements

3.5.1.A. Background and Findings

There are two applicable agreements for which accountability is required. They are described below.

Agreement on the Transfer of Housing Budgets and Liability

Under the provisions of the sectoral agreement with the SHQ, the City must provide, for the AccèsLogis Montréal program and the RQP, an audited statement of disbursements and receipts. We were able to obtain evidence to that effect.

In addition, the City must provide a subsidy progress report indicating the subsidy amount per project, the status of the project and, for projects not yet completed, the percentage of completion of the work. We were able to obtain evidence of these reports, but they did not indicate the percentage of completion.

Finally, on July 1 of each year, the City must send the SHQ a provisional schedule identifying the monthly distribution of the budget that it will have at its disposal to meet needs beginning on April 1. We were not able to obtain evidence that this schedule had been sent.

Agreement Relating to the AccèsLogis Program for the Development of Non-Profit Cooperative Housing

Under the framework agreement with the approved lender, the lender is required to provide the City with follow-up reports for interim and long-term financing of projects as of August 31, December 31 and March 31 of each year. Two reports must be produced: one indicating the balance of the line of credit and mortgage loan and a second indicating the accrued interest on the line of credit and mortgage loan.

During our audit, we requested the accountability reports produced by the approved lender but were only able to obtain reports dated June 30, 2019, and December 31, 2019. With regard to the report dated June 30, 2019, the SH states that it had previously provided certain information for the projects under the City's program in an Excel file, which was subsequently forwarded to the approved lender, who completed the information regarding the folios and the amounts guaranteed by the City. We were able to obtain from the approved lender the report dated December 31, 2019, concerning the balance of the line of credit and the mortgage loan. We are of the opinion that this reporting is insufficient since the City did not receive the second report indicating the accrued interest of the line of credit and mortgage loan.

As such, the City does not have all the relevant data with respect to the loans it guarantees and does not receive it on the agreed dates.

RECOMMENDATION

3.5.1.B. We recommend that the Service de l'habitation ensure that all the reporting required under the sectoral agreement with the Société d'habitation du Québec is produced in compliance with the requirements.

RESPONSE

3.5.1.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

RECOMMENDATION

3.5.1.C. We recommend that the Service de l'habitation take the necessary steps with the approved lender to obtain the two reports under the provisions of the loan agreement, so that the Ville de Montréal may have complete and reliable information.

RESPONSE

3.5.1.C. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.5.2. Accountability within the Ville de Montréal

3.5.2.A. Background and Findings

When a business unit implements orientations that have been approved by the municipal administration, it must monitor, periodically evaluate and report on its progress. Accountability mechanisms must be in place to ensure that informed decisions are made in a timely manner.

In this case, according to the decision-making files supporting the approval of the modifications made to the AccèsLogis program, the objectives included to modulate the projects in accordance with municipal orientations (e.g., policies, strategies, programs), to accelerate project completion times, to improve the viability of social and community housing projects both at the time of their completion and during the operation of the buildings, and to offer affordable rents for low- and moderate-income households in relation to median rents in Montréal.

In the course of our audit, we noted the existence of accountability mechanisms for the strategy behind the development of 12,000 social and affordable housing units – Axis 1. This report presents, among other things, the names of the AccèsLogis Montréal program projects, the number of units at each program stage (PA, CC and DC) and the amounts allocated to these stages in the SHQ budgets.

Further to the analysis of the various reports referred to in this section, we noted that the SH did not produce accounts, for the period under audit, on the attainment of the objectives listed in the decision-making summary. We feel there is a need for the municipal administration to know the extent to which objectives are attained as a result of the transfer of powers and responsibilities. To this end, we believe that indicators to measure the attainment of these objectives should be established. For example, it would be interesting to compare the average completion time for projects under the AccèsLogis Montréal program with that previously noted under the AccèsLogis Québec program, since one of the objectives was to speed up project completion times.

It would also be relevant to establish indicators to assess the viability of projects.

Because of the sums involved and the municipal administration's commitment to producing affordable and social housing, it would also be very relevant for the SH to report, among other things, on the value of subsidies granted to bodies under the AccèsLogis Montréal program, on the number and value of secured loans, on the number of projects experiencing financial difficulties and on those that have been abandoned.

RECOMMENDATION

3.5.2.B. We recommend that the Service de l'habitation develop indicators with respect to the objectives established as a result of the transfer of powers and responsibilities from the Société d'habitation du Québec regarding housing, and produce periodic reports dealing in particular with the subsidies granted to bodies, guaranteed loans, and projects experiencing financial difficulties, in order to evaluate the attainment of these objectives and to report on them to the authorities so that informed decisions can be made.

RESPONSE

3.5.2.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

3.6. Mandate of the Auditor General of the Ville de Montréal in Accordance with the *Cities and Towns Act*

3.6.1.A. Background and Findings

The *Cities and Towns Act* (CTA) defines the mandate of a municipality's auditor general. Section 107.7 identifies the bodies for which the auditor general is required to audit the accounts and business.

These bodies include, among others, the non-profit organizations that are subject to the contractual rules provided for in section 573.3.5 of the CTA and that meet, on January 1 of a given year, the following conditions:

- Their revenues for at least one of the last two years were equal to or greater than \$1,000,000;
- Financial assistance received from a municipality represented an amount equal to or greater than 50% of their revenues for that year.

In the case of these bodies, section 107.8 of the CTA provides that the auditor general may conduct, as he sees appropriate, a financial, compliance or resource optimization audit.

As of November 30, 2019, subsidies of more than \$26 million (calculated according to the degree of progress of the work) have been granted by the City under the AccèsLogis Montréal program. Considering the provisions of the CTA relating to non-profit organizations subject to section 573.3.5, we therefore sought to establish whether bodies that had received financial assistance should be included in the list of bodies covered by the scope of intervention of the City's auditor general. We feel these bodies' financial statements are the preferred tool for our analysis.

The decision that an auditor general must make to define the area of intervention stems from a legal obligation. For the City, obtaining the financial statements of bodies when appropriate is therefore essential to ensure the orderly conduct of business. It should also be noted that, in accordance with section 107.9 of the CTA, these financial statements must be audited if the City paid out an annual subsidy of at least \$100,000.

At the time of our audit, we noted that the SH had not put in place mechanisms to formally inform bodies of the obligation to provide audited financial statements to the auditor general of the Ville de Montréal. Although the operating agreements contain a clause requiring audited financial statements, subsidies of more than \$100,000 are awarded to bodies before the agreement is signed. Moreover, although the Direction générale draws up a list of bodies that must comply with this obligation and sends it to the SH for the necessary follow-up, we believe that the SH must put in place the necessary mechanisms, in accordance with the administrative framework in effect.²¹ At the time of writing this report, we had not obtained all of the audited financial statements of the bodies that had received subsidies of \$100,000 or more under the AccèsLogis Montréal program.

RECOMMENDATION

3.6.1.B. We recommend that the Service de l'habitation take the necessary steps to ensure that bodies receiving annual financial assistance of more than \$100,000 under the AccèsLogis Montréal program are obliged to provide audited financial statements to the auditor general of the Ville de Montréal, in compliance with the legislation in force.

RESPONSE

3.6.1.B. *The audit report was issued to the business unit concerned in the week of March 23, 2020. The business unit agree with the recommendation. The Bureau du vérificateur général has asked the business unit to establish an action plan for implementing this recommendation by July 2, 2020.*

²¹ *Guide de gestion des soutiens financiers aux organismes à but non lucratif (OBNL) (C-RF-DG-P-17-001).*

4. CONCLUSION

One of the major priorities of the municipal administration of the Ville de Montréal (the City) is the construction of 12,000 social and affordable housing units. Through the conclusion of the sectoral agreement on housing with the Société d'habitation du Québec (SHQ), the City has a means to attain this objective by having been given increased powers and responsibilities in housing matters. With that in mind, the Service de l'habitation (SH) wishes to accelerate the completion of projects, while ensuring that they are viable during both the construction and operational phases, in accordance with municipal and governmental orientations. Since the signing of the sectoral agreement on March 29, 2018, three budget periods have elapsed (2017–2018, 2018–2019 and 2019–2020) and budgets have been allocated to all of the programs except for the AccèsLogis Montréal program, which, to date, has no budget for the 2019–2020 period. Since the City has adapted its AccèsLogis Montréal program to Montréal's reality and issues, the processing of new eligible projects on its territory (after July 1, 2019) could slow down the attainment of the municipal administration's objective.

Our audit enabled us to determine that the SH has taken steps to enable it to fulfill its new responsibilities in the area of housing resulting from the "Montréal Reflex" framework agreement.

Although the SH has reviewed its processes with respect to the AccèsLogis Montréal program with a view to granting not only financial assistance, but also a loan guarantee to bodies, as well as to follow up on subsidized projects for a period of 35 years once they are in operation, the fact remains that the City assumes all financial risks with the approved lender. In the absence of sound administrative and financial management of the guaranteed projects and given the amounts involved, the City could be called upon to make cash disbursements. In our opinion, this warrants an in-depth review of the projects to assess the extent to which the bodies' financial situations and their administrators' ability to assume sound project management expose the City to undue risks. Mechanisms must therefore be put in place to avoid injecting additional sums into projects or the City finding itself in situations where buildings are taken over or sold.

The budgets transferred to the City from the SHQ constitute public funds and, in this context, following our audit on processes and the effectiveness of controls deemed important, we recommend, among other things, that the City:

- Clarify with the SHQ the divergence of opinions, unresolved to date, regarding compliance with the targets in terms of units and to validate whether the new municipal programs comply with the government's orientations;
- Sign an additional financing agreement to cover the units committed by the AccèsLogis Montréal program;
- Ensure that the resources involved in the development and implementation of projects under the AccèsLogis Montréal program have the expertise required to assess the financial soundness of bodies, the viability of projects and the adequacy of funds to guarantee loans;
- Maintain evidence that bodies that have submitted projects under the AccèsLogis Montréal program did not encounter viability issues with respect to past projects that received financial assistance under the AccèsLogis Québec program;
- Rule on the need for projects carried out under AccèsLogis Montréal to be subject to the governance framework for municipal projects and asset programs;
- Systematically require the financial statements of bodies that have submitted projects to the AccèsLogis program in order to assess their financial soundness;
- Ensure that the documents sent to the approved lender regarding the financing of projects are approved by the director of the SH;
- Maintain evidence that the variables affecting the calculation of the subsidy have been validated;
- Ensure that, for all projects, organizations and contractors are not listed in the Register of Enterprises Ineligible for Public Contracts (REI);
- Establish indicators to assess the extent to which the expected benefits have been realized as a result of the transfer of responsibilities and budgets.

Combined with the new housing responsibilities arising from the “Montréal Reflex” framework agreement and which were the subject of this audit, other initiatives have been put in place by the City to facilitate the development of new social projects. These include the right of pre-emption to take advantage of more opportunities to develop social housing, the 12,000 affordable housing units strategy, and the upcoming adoption of the by-law for a diverse metropolis. Given there exists a social housing crisis in Montréal, we are of the opinion that it is essential that the City continuously evaluate its results with regard to the creation of social housing in order to know to what extent this crisis is on its way to being resolved. If not, we believe that it will be necessary to take action to modify certain parameters of the AccèsLogis Montréal program or to make representations to the provincial government so that it modifies other parameters under its jurisdiction.

5. APPENDICES

5.1. Description of the Programs Covered by the Transfer of Powers and Responsibilities

AccèsLogis Montréal Program

(By-law amending the By-law concerning subsidies for the development of non-profit cooperative housing (02-102B), approved by the urban agglomeration council on December 14, 2017)

The housing units developed under this program are intended for low- and moderate-income households as well as for tenants with special housing needs. Bodies promoting a social and community housing project must contact consultants, namely the Technical Resource Groups (TRGs), to develop their project and submit their Application for Financial Assistance (AFA). The City recognizes four TRGs. According to the program in effect, the financial assistance granted to developers corresponds to 50% of the Maximum Permissible Costs (MPC) for the completion of a project. In order for bodies to obtain financial assistance for their projects, these must go through various stages and meet program requirements, including the following:

- Submission of the file: The body must submit a file to the SH, which file provides information on the body and the requirements to be met regarding the social, architectural, financial and legal aspects of the project;
- Preliminary Approval (PA): The body identifies a piece of land or a building and begins to develop the project. The SH then verifies the eligibility of the file. The project must meet eligibility criteria in terms of eligible bodies, clientele and the types of work required. There are three types of clientele, namely:
 - Component 1: Low- and moderate-income households, including people living alone, families and independent seniors;
 - Component 2: People aged 75 years and over with slight loss of independence;
 - Component 3: People with special needs (homeless, victims of violence, mental health problems, etc.).

When the project is deemed eligible, a recommendation for the allocation of housing units is made as follows:

- **Conditional Commitment (CC):** The body has an offer to purchase and details its project. This step requires the body to submit documents and information demonstrating that the project's social, architectural, legal and financial aspects comply with the requirements;
- **Definitive Commitment (DC):** This step also involves adding documents and information to the file to demonstrate that the social, architectural, legal and financial aspects comply with the requirements. Completion of this step allows the body to proceed with the acquisition of the building. A contractor is selected on the basis of a call for tenders (if the project is carried out on a lump sum basis) and work can begin.

A project can also be carried out in Turnkey (TK) mode, in which case the owner of the land carries out the construction work before the body takes possession;

- **Interest Adjustment Date (IAD):** Once the work has been completed, a certificate of completion is issued provided the work is compliant. Beneficiaries move into the finished building. Thus, the guaranteed mortgage loan will be set and the subsidy will be paid and applied to reduce the balance owing on the loan.

Financial assistance for projects that are deemed eligible can take on a variety of forms, including the following:

- **Development subsidy:** This subsidy allows the body to proceed with the acquisition of a building or to carry out the work, if necessary, and is based on a percentage of the MPC, which varies according to the type of unit (e.g., studio, one-bedroom, two-bedroom). This subsidy includes the subsidy from the Montréal Metropolitan Community;
- **Additional subsidies:** This type of subsidy is granted under certain conditions to ensure project viability;
- **Subsidies pursuant to the Rent Supplement Program (RSP):** This financial assistance is aimed at low-income households that, without this additional assistance, would have to spend more than 25% of their revenue on rent;
- **Loan guarantees:** The body benefits from a mortgage loan that is guaranteed by a third party (surety).

The operating phase begins once the work has been completed and the mortgage loan has been set.

Renovation Québec Program

In recent years, this program has consisted of the following five subsidy subprograms:

1. Home Purchase Assistance program (property acquisition)

(By-law concerning the subsidy program for the acquisition of a residential property [By-law 18-025], approved by city council on May 28, 2018)

This program is designed to encourage Montréal households, particularly those with children, to settle in Montréal through the purchase of a first home or the acquisition of a second property that better meets the changing needs of their household. The financial assistance may take the form of a lump sum for the acquisition of a new property or a partial refund of the real estate transfer tax when purchasing an existing property, subject to conditions regarding the type of dwelling, the number of children and the purchase price.

2. Urban Housing for Families program

(By-law establishing a municipal subsidy program to carry out projects intended for families [By-law 14-034], approved by city council on October 27, 2014)

This program is designed to promote the construction of properties that meet the needs of families. It focuses primarily on the areas near the centre of the island of Montréal, where there is a lack of such housing.

The program provides the developer with financial assistance in the form of a subsidy applicable only to family dwellings, which must meet the criteria.

3. Renovation à la carte program

(By-law concerning the municipal subsidy for residential renovation for targeted work [By-law 14-037], approved by city council on October 27, 2014)

This program offers financial assistance to homeowners to renovate or replace certain exterior or interior components of their residential or mixed-use building. Entitlement to financial assistance is conditional on this assistance reaching a minimum threshold on average per dwelling and the applicable work criteria must be met.

4. Major Residential Renovation program
(By-law concerning the municipal subsidy for residential renovation and demolition–reconstruction [By-law 14-036], approved by city council on October 27, 2014)

This program is aimed at the renovation of an entire residential building, such as to renovate all of the building's components that require it or in some cases demolish and rebuild a building. The amount of financial assistance and the authorized rent increases are calculated according to a cost schedule of the work established by the City. The renovation work must be major and meet certain objectives as well as the defined building criteria.

5. Stabilization of Residential Building Foundations program
(By-law concerning the municipal subsidy for the stabilization of foundations of residential buildings [By-law 14-038], approved by city council on October 27, 2014)

This program provides financial assistance to owner-occupants to help with the potentially high cost of stabilizing foundations affected by subsidence. The work must have been deemed necessary by an engineer and be sufficient to stabilize all parts of the building considered unstable. The financial assistance consists of a lump sum established according to the nature of the work required.

Residential Adaptation Assistance Program

The program is intended for people with a disability (tenants or owners), who are limited in the performance of their daily activities and who need to modify and adapt the dwelling they live in in order to have independent access to the dwelling, the rooms and the amenities essential to daily life. Assistance is granted to pay the cost of the work provided that an occupational therapy report demonstrates that the impairment is significant and that modifications to the home are necessary. The full amount of the assistance is paid to the homeowner upon completion of the work following the City's audits.

5.2. Objective and Evaluation Criteria

Objective

Ensure that the SH has taken the necessary measures to enable it to fulfill its new housing responsibilities stemming from the “Montréal Reflex” framework agreement.

Evaluation Criteria

- An assessment of the resources required and the processes in place was carried out to enable the Ville de Montréal (the City) to adequately carry out its new responsibilities;
- Municipal programs are developed using a structured approach that takes into account Montréal’s needs and issues as well as government objectives while respecting applicable agreements;
- Mechanisms for validating the financial soundness of the bodies and the viability of the projects selected for a loan guaranteed by the City have been planned and are being applied (for the AccèsLogis Montréal program);
- A process has been put in place to ensure follow-up and compliance with the applicable agreements;
- Accountability mechanisms are exercised periodically to ensure compliance with the signed agreements and the attainment of housing objectives.