

Chapter Three

CAPE BRETON LABOURERS DEVELOPMENT COMPANY: INNOVATIVE FINANCING AND SELF-RELIANCE

Like A-Way, CBLDC was organized to serve a particular constituency, but unlike A-Way it has actually had a broader perspective both in terms of those potentially to be served and the range of activities the organization might engage in. In short, its concept of community is somewhat broader as is its projected program. In its current phase CBLDC has stressed financing (and building) homes for members of the labourers union local that is its base, but it hopes to expand that base to other participants and also to engage in business development that may or may not be related to the housing field but will contribute more generally to strengthening the economy of Cape Breton, its locale. CBLDC has been quite successful in its innovative financing technique to put new life into a very depressed home construction industry, but it has not yet been able to extrapolate its success to include other participants and to create other job-producing activities for a very depressed locality.

Social as well as economic objectives are built into the CBLDC program. It gives priority in home finance to the most needful among its members (in terms of their current housing situation), and the home-building activity it carries out provides jobs for a range of construction industry workers. One counter-institutional feature is its rejection of the practice of charging interest to the beneficiaries of its financing service, substituting an interest-free lease-purchase arrangement, which thereby makes single-family housing affordable for them. How this is technically managed is CBLDC's outstanding innovation in the field.

The Cape Breton Labourers Development Company (CBLDC) was organized as a nonprofit company in late 1987, upon the initiative of three members of the executive committee of the International Labourers Union Local 1115, in Sydney, Nova Scotia. It was in December of that year that the membership of the local voted in a 95 percent majority to tax themselves by a payroll check-off of 25 cents per hour of work; the proceeds would go to a benevolent fund to be administered by CBLDC for death, disability, and retirement benefits. But this was to be more than an individual benefit plan.

So long as the monies thus collected were not required for benefit awards, they would be lent, interest-free, to a housing construction fund, also to be operated within CBLDC. This fund would finance the construction of affordable homes for union members. Thus the main activity of CBLDC today is in fact the finance and construction of affordable housing, although its charter allows it to engage in other community business development projects and to administer the benefit plan. The charter assures also that CBLDC is completely independent of the union and is open for participation by other unions or business or community groups to enter the check-off benefit and housing program.

Background

When the three members of Local 1115's executive committee were elected as a slate in June 1987, they determined to use their posts to do more than just run the union. They wanted to provide a broader set of services than is usual for a union. Their first step was to survey the membership as to their problems and their hopes, in order to figure out what would meet the members' needs most effectively.

It should be noted that Local 1115 operates in the very depressed economy of Cape Breton Island. Union membership by no means assures a job. Of the 500 members, often no more than 100 might be employed at any one time. Of these, very few are in companies that will be paying them the year around. The off-again, on-again nature of the construction industry, which is the main source of jobs for the members, means that even if one is lucky enough to be hired on by one or another company, the term of employment is limited to a few months in a year, with only uncertain prospects of being recalled by the employer when construction weather begins the next year.

In these circumstances, members can take on long-term financial obligations only at great risk. For example, to buy a house on the usual mortgage arrangement is to run the risk of losing the house, the initial down payment, and all subsequent payments made on it, if work runs out for too long a period. This was the experience of all too many members of Local 1115, and their fellows tended to avoid the risk by occupying rental space instead, or perhaps by saving for many years in order to buy a house more or less outright.

The member survey highlighted this problem as one that was felt most keenly. Members deeply wanted to be able to live in a home they could call their own--and not even co-op or condominium apartments fitted this ambition. Indeed that is a goal shared by many Cape Bretoners, for there is an especially high home-ownership rate for the island. The union members wanted to live in respectable single-family dwellings that they themselves could own, like many of their neighbours, friends, and relatives. The three leaders, pondering the results of the survey, in session after session around their kitchen tables, concluded that the solution to the housing needs was a finance scheme that would protect the home-buyers in times of unemployment. They also concluded that only the efforts of the members themselves could solve the problem. With more discussion among themselves and the others they consulted, they hit upon the scheme based upon financing each other through the check-off.

The Benefit Plan

If one element of the scheme was self-reliance, another was to reward those workers who financed the housing through their hourly check-off. The contributions would be used to build homes, but they would be paid back in full. Each participant--that is, each person for whom 25 cents per hour worked is checked off--has his contributions accounted for in an individual benefit fund. The check-off is automatic because it was made part of the master union agreement with the construction contractors operating in Cape Breton.

The total amount of the individual member's contributions (or a minimum of \$500 from the benevolent fund, if the contributions do not total at least that amount) will be

paid off in a lump sum to the participant in the event of disability or retirement. Alternatively, in the event of death before retirement, the account is paid off to the participant's designated beneficiary.

In the plan proposed to the members of the local, the minimum of \$500 assured those late in their years of a real advantage in participation, despite a short period before retirement. It also assured any contributor that, despite a lack of work, there would indeed be a benefit eventually. However, no interest was to be paid to the contributors---no more so than interest would be paid by the housing construction fund or by the home-buyers themselves. A thoroughgoing no-interest position is a basic feature of the scheme; and of course that makes possible the least costly housing overall.

A prime reward of the benefit plan is a ceremonial dinner held each year for retirees of that year. This dinner honours both the lifetime of work and the contributions made by the worker to the housing of his fellow workers.

The Plan for Housing

The homes built with financing through the housing construction fund are slated each year for a pre-selected list of beneficiaries. These are chosen by the CBLDC board from a listing of applicants, each of which is rated in accordance with housing needs. The rating system uses such criteria as current quality of housing, number of persons sharing the housing, etc.---seniority of union membership is also rewarded by points in the rating system. Because the membership is relatively small and because the community itself is small, the living conditions of members are known to each other, and the CBLDC staff and board are thus well able to assess the validity of facts presented by the applicants.

The selected buyer can choose among different architectural plans and add features or subtract some, with consequent adjustments to the final price he pays. The house will be built in the general locality chosen by the buyer (depending upon the availability of land). The buyer may and often does have a piece of land that he will be allowed to designate as the site, and this too affects the price to be charged. Finally, the price is adjusted in accordance with any labour volunteered by the buyer, his family, and friends.

The house will be bought under a lease/purchase agreement that stretches payments over either a 20-year or 25-year period, with monthly payments that include taxes and insurance. (The 25-year plan was adopted later to handle the high tax locations that would put the monthly payments at too high a level on a 20-year plan.) The purchase price of the house is the actual cost of materials, labour, land, and household equipment, plus an administrative service charge. The service charge goes to help defray CBLDC's operating expenses. (No benevolent fund or housing construction fund monies may be used for operating expenses; those monies are sacrosanct for the purposes designated.)

Administrative service charges are assessed under the 20-year payment plan at 50 percent of the actual cost of the house, and at 60 percent under the 25-year plan. This charge represents an amount analogous to approximately 4 percent interest on the actual cost of the house. The charge is added in toto to the initial price of the house and thus is paid off within the schedule of regular monthly payments. Thereby operating costs are amortized, so to speak, over the years for all houses.

This scheme permits the home buyer to get a single-family home for a total payment of about \$440 per month including all taxes and insurance (and the service charge). This

monthly payment buys him a three-bedroom house of approximately 900-1000 square feet of living area. The actual cost of construction has ranged from less than \$50,000 to about \$57,000. Most of the first 14 buyers had or obtained from their families a plot of land, and this reduced their monthly payments on the average to about \$300.

The low level of local construction costs and land costs as compared to, say, Toronto or Halifax, means, of course, that the overall price paid by the buyer is correspondingly low. But the central cost reduction to the buyer is the absence of interest at all stages of the process--no construction loan interest, no interest on a down payment loan, no mortgage interest, no interest, period. Even a conventional plan for home lease/purchase cannot offer this advantage. And, in contrast to the conventional lease/purchase arrangement, the Local 1115 buyer is well protected against the loss of his house.

First and foremost, the monthly payments are set so low that even were the family temporarily on UIC or social assistance, payments are a reasonable proportion of income. (This is an intentional aspect of the payment schedule.) And second, the CBLDC board will consider special circumstances of family need and allow any missed payments to be attached to the end of the lease/purchase agreement term. It is thus virtually impossible for a well-intentioned home-buyer to lose his home.

In the lease/purchase agreement, moreover, there are protections for the purchaser who has contributed land and labour but for one reason or another gives up his house. And there are a variety of provisions---on required level of maintenance, re-sale and buy-back, inheritance, early purchase, and the like---to assure a fair administration of the plan. For example, re-sale is permitted only after five years, should the family's situation change (say, the member wanted to retire and go into senior citizens' housing); and the company has a first option on the house.

The Financing Process

In the initial year of operation (1988), check-off collections were, of course, not expected to be large enough to finance any construction. Moreover, there were no revenues that could be used for administrative purposes. For that year, operational expenses were borne by a collaborating and sponsoring organization, the Centre for Community Economic Development, an advocacy and service group for development activities focussing particularly on Cape Breton. Clearly, no matter how well-designed the scheme, it would take a long time before a check-off of 25 cents per hour would produce enough to begin building houses.

In the meantime, CBLDC pursued funding from government and other sources that would provide the program with a kick-start while the check-off contributions accumulated to the point where they could be reasonably lent for the housing construction fund. In effect, CBLDC set out to seek partners who would be appropriately impressed by the self-reliance of the overall scheme and by the fact that if planned carefully, the scheme could project a construction program indefinitely into the future. Right away, pointing to its long-term potential with reliance upon the participants' own resources, CBLDC raised interest-free loans and outright contributions of about \$25,000 from church groups. This made it possible to begin construction of their first house in the late fall of 1988, their first full year of operation.

Later that winter, CBLDC completed construction on that first house. At a gala

ceremony marking the occasion, the house was turned over to a family of seven, who had been rated first by the board's rating system. In the course of the ceremony, CBLDC also introduced a representative of the headquarters of the International Labourers Union in Washington, D.C., who presented a check for a 15-year \$200,000 interest-free loan. The loan was exclusively for housing construction, with the initial payback instalment scheduled for 1996.

So CBLDC had the necessary kick-start to begin building more houses that same year. But within months they also received another interest-free loan, \$200,000 for a 10-year term, from Enterprise Cape Breton Corporation, the federal development agency for the island. From both sources, funds were thus in hand to build eight houses, more indeed than the group could manage to get going in one year. It meant that they could plan on keeping busy with four in 1989 and another four in the following year. Yet that was not to be the end of their ability to attract partners.

In the following year they obtained an 8-year \$200,000 interest-free loan from the provincial housing department. Then, shortly, they received a \$300,000 grant from Canada Employment and Immigration Commission. For the near term, construction funding was no problem. In fact, CBLDC drew down only \$180,000 of its ECBC loan, before the first scheduled repayment instalment was due. The CEIC grant permitted them to construct five houses and buy ahead three extra lots. In addition, these houses meant unencumbered income that could be used for operating expenses; there was no loan or repayable grant to be paid off. So once the houses were transferred to the buyers in 1991, the monthly payments totalling approximately \$1000/month, could be counted upon to pay core operating bills---all the monthly payments, except for what had to go to taxes and insurance (varying from about \$75 to about \$125).

The grant-supported construction made the funds available for operating expenses in 1991. Before that time, for the first three years of operation, many administrative costs were borne by the Centre for Community Economic Development, which also helped CBLDC in its successful search for loan and grant support. But the Centre itself was not able to maintain administrative support indefinitely, and fortunately the swift influx of loan funds meant that CBLDC could place its unused dollars temporarily in term deposits and use that interest for a small portion of the operating costs. (The organization had no compunctions against earning interest from the banks!)

Nevertheless, even after 1991 the operating income has not been sufficient to pay the staff full salaries. And much of the work of the group was done and continues to be done by the three leaders on a voluntary basis. The chairman of the board, originally head of the local, earns a salary solely as the CBLDC construction supervisor (and chief carpenter), and this usually amounts to about 12 weeks of fulltime pay, with the most of the rest of his time donated both to CBLDC and to the expenses of the homes under construction. Essentially the same arrangement has been true for the other two founders, one of whom is the purchasing agent and handles all tenders and the other of whom is the office manager (essentially the chief operating officer).¹

¹ Two new, small government grants have supported operating expenses in 1993-94, so that the number of projected paid weeks for staff has doubled to 24.

Organizational Structure

The collaboration of the three men continues to be close, and virtually all operating decisions are made by consensus. The board is the source of policy and of such decisions as who will be approved for a home in the current year, how to handle the occasional delayed or delinquent account, and which electrical, plumbing, etc., bids will be accepted in response to the tenders issued. The board of directors includes, as well as the three founders, two representatives of the local council of churches, someone selected by the union membership, a representative from the Centre for Community Economic Development, and, from time to time, divers other local people in business or law or other potentially helpful specialities, for a total of at least eight directors.

Clerical and bookkeeping services were initially performed by Centre staff or by local college student volunteers, but the office manager has taken training in computers, typing, bookkeeping, etc., so as to handle some of the chores. Occasionally there is a part-time or short-term office assistant for basic office tasks. However, it must be emphasized that much of the work is still done on a volunteer basis.

The estimated total operational expenses, if costed out in conventional terms, cannot be met out of the revenue stream for "administrative services" (and the grant-financed homes) until the number of houses reaches about 65. An estimate of the portion of monthly payments for administrative services is \$100 per month per house--multiplied by 65 houses would equal approximately \$78,000 annually with the 5 grant-financed homes adding about \$18,000, for a total of around \$96,000. Some term-deposit interest income would supplement this.² But the number of homes built to date is only 20, and they generate insufficient free dollars.³ Currently the total operating expenses are about \$80,000, but only with the staff being paid somewhat less than half-time.

Accomplishments

CBLDC has designed an inventive financing tool, replicable throughout North America. As such, it has received recognition both in Canada and the United States. The National Congress for Community Economic Development, a U.S. association, awarded CBLDC its prize for innovation in the field in March 1990. And later that same year, CBLDC received the biennial national award (in the field of "finance and tenure" for housing young families) from Canada Mortgage and Housing Commission. What attracted both awards was the feature of independence over the long term from any government or other outside support. Paradoxically, this very feature of self-reliance has encouraged outside support for the initial years so that CBLDC has been able to take off swiftly into a substantial housing construction program.

To date 20 houses are occupied by participants. These represent about \$1.5 million in assets, with no mortgages or other direct liabilities attached. The no-interest loans are not

² Also, once a loan to CBLDC is paid off, the monthly payments on the homes thus financed which now are set aside for loan repayment would be accessible for operating expenses.

³ This does not include three other houses that CBLDC has built under the federal Native and Rural Housing program, for which no continuing income is earned--just an initial fee of some \$3,000, depending upon bringing the house in under cost. Two of the houses, built in the rural county of Inverness, were designated by the government for Local 1115 members, so even under this program CBLDC helped its membership.

directly secured by the houses but only by the incomes from them. Repayments on the government loans are being made from current revenues, and the first \$50,000 payment on the ILU loan is not due for about two years, by which time the necessary funds will, by CBLDC budget calculations, be available.

CBLDC has carefully projected its finances to handle the interlocking and potentially conflicting demands of loan repayments, benefit awards, and operational expenses, as well as the basic task of building affordable housing. There is now no reason why it cannot continue building three or four houses a year into the indefinite future, without any new support, relying only on new funds from its check-off system. Check-off contributions, accumulating since June 1988, total in May 1994 about \$375,000. These constitute, of course, a liability for benefit payments, and that liability is insured up to \$1 million at present. Only about two-thirds of the contributions may be loaned to the construction fund; one-third is retained as a reserve that will more than cover even an unlikely level of demand for it in any year. And of course the benefit fund is repaid out of the monthly house payments.

The home construction itself is a job-creating activity in a locally depressed economy. Approximately 1000 persondays of work is represented by each home that is built--according to the applicable Nova Scotia housing estimates--though productivity at CBLDC seems higher and the number of persondays therefore somewhat lower. In addition, CBLDC has also acted as sponsor, supervisor, and contractor for three additional houses built under a CMHC program for rural housing, thus promoting more workdays.

Approximately 80 percent of the labour on all the houses is directly organized by CBLDC (occasionally through subsidized short-term training programs and through the home-buyer's contributed services, but generally simply by wages to local members). The other 20 percent is by local jobbers--very small companies in electrical or plumbing work, etc. These are essentially one-man companies, ordinarily headed by a union member of the specialized trade concerned. Union bidders of equal quality are preferred even if their bid is higher, as long as it is no more than ten percent higher. This tends to work out that perhaps 95 percent of the work has been by union labour.

CBLDC has thus made overall a significant contribution to the community economic development of its locality. Specifically, it has revived a moribund industry sector, namely, the construction of affordable family housing, which has been virtually absent for years in Cape Breton and increasingly so throughout the nation as a whole. In the instance of Cape Breton, the organizations that had in the past concentrated on affordable housing are either no longer active or rarely active, due to the reduction in federal and provincial support. Here now is a practical way to supplement scarce government funds throughout the country for the essential provision of affordable family housing.

In summary, the direct and indirect benefits of CBLDC's work are multiple and fundamental. In the course of reviving the industry CBLDC makes new jobs available to people who have been suffering in the general construction decline. It creates new markets for the small construction subcontractors and also for home-related suppliers. It establishes new property values for the community, enhancing the tax base. And perhaps most important it offers the essential amenity of dignified and decent housing for families who otherwise struggle under the stress of the poor housing conditions that too often create health, welfare, and justice system problems. In short, CBLDC offers a model program for economic and social progress, arising from local energy and based upon self-reliance.

Practice and Policy Issues

The success of CBLDC should not obscure cautionary issues in this innovative model. Most of these issues revolve around the very problem that CBLDC addresses--that is, the financing of affordable housing. Despite CBLDC's innovation, affordable housing remains, for CBLDC and the nation as a whole, a vexing problem. A construction program of about four houses a year is very limited. An expanded program would require resources outside Local 1115 and CBLDC. Indeed, even the four houses per year has depended upon the aid of partners providing no-interest loans.

CBLDC got off to a quick start, only because of outside support. Initially, the support of the Centre for Community Economic Development (CCED) was critical; and the CBLDC case illustrates the crucial role that is often played by the so-called intermediary organization in this field. CCED provided operational funds, administrative support services, general counsel, and considerable assistance in the fund-raising process. And the major outside funds from government agencies and from the national union have, of course, been an essential part of CBLDC's success. Even though, at base, the scheme is founded on self-help, it must be recognized that partnerships have been crucial. Nevertheless, it seems clear that the revenues tapped by the check-off system and the image of self-reliance that it embodies can be a powerful lever for inducing that outside support.

It is also important to recognize that the actual cost of the houses is being subsidized by volunteer services at all levels, not least from the founders themselves. Thus a variety of sources of nonfinancial support must also be seen as involved in the success of this model. Indeed this wide range of support is a basic feature of all efforts in community-based economic development. That is, the community-based approach is, at bottom, a matter of mobilizing resources of all kinds, not just dollars, and from all possible sources, both local and outside.

One financial subsidy seems too onerous: Inherent in the check-off system and the benevolent fund is a very substantial financial subsidy by the local check-off participants. They receive no return on the capital they contribute. Any interest earned by the reserves goes for operating expenses. Is there a way in which at least the reserves held back in the benevolent fund (reserves not allocated to the housing construction fund) can provide some return to the contributors? How might this arrangement qualify for RRSP status at the very least, thus sheltering the wages represented by the 25 cents per hour foregone? CBLDC has not systematically addressed this question, perhaps because meeting the costs of the organization is currently dependent partially upon the term deposit interest. A study might indicate some attractive possibilities within the current tax structure for return on the contributed capital, or alternatively might indicate legislative adjustments to that structure, so that the model is more readily replicable.

Another onerous subsidy is nonfinancial: the year-around work of the three founders, who receive compensation for less than half-time annually--from about twelve weeks paid full-time and the rest from perhaps a day per week of additional wages thereafter. The year after year grind of that sort of effort is a likely hindrance to expecting others to repeat the CBLDC model.

For CBLDC itself, expansion of participation is the key to increased housing production, but it is also key to a revenue stream that will make volunteer effort no longer so essential to meet operational expenses. With more houses, there will be more income

generated by the administrative service charge paid in the monthly instalments. Of course, all this would be resolved if there was higher employment for Local 1115 members, so that the check-off stream would be enhanced. Otherwise, other unions would seem to be the most likely targets for widened participation.

Despite energetic campaigning by CBLDC, none of the other Cape Breton unions have expressed serious interest. Preliminary inquiry by CBLDC has suggested that the teachers union and the public school systems might eventually be the most likely potential participants. It is true that many of these people (and indeed the people in many other potential participant groups) already own homes, and this raises the question of whether the ultimate benefit of the program---which is a home of one's own---is relevant to them. However, participation by those who already own a home may not be a major obstacle, since the system can work quite readily by buying out the participant's outstanding mortgage and thus offering the home-owner the advantage of the CBLDC lease/purchase arrangement and its risk-reduction features.

On the surface, the model is definitely replicable. However, it is also true that despite the efforts of the founders to spread the idea in various local, regional, and national settings, the CBLDC approach has not been taken up by any others. Systematic research on the conditions behind this fact should reveal how and where the benefits of the CBLDC innovation can be spread.