



## PRE-BUDGET CONSULTATIONS SUBMISSION

MINISTRY OF FINANCE

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### Ontario Co-operative Association

The Ontario Co-operative Association develops, supports, educates and advocates for Ontario's over 1,500 co-operative businesses. Our goal is a sustainable province built on growing and thriving communities that are providing social, environmental and economic wellbeing to all Ontarians.

Co-operative enterprises in the province of Ontario employ 57,000 people and generate \$6 billion for the economy every year. One in four Ontarians is a member of a co-operative.

Co-operatives operate in all sectors of the economy including finance through credit unions, insurance, manufacturing, agriculture, housing, retail and health care. Some of our members will be sharing their suggestions for budget 2021 through this submission process including GROWMARK, The Co-operators and The Co-operative Housing Federation of Canada. Our organization supports their submissions and is encouraged by our sector's innovative responses to the pandemic within their communities and their ideas for a healthy future beyond COVID-19.

The co-operative sector plays an essential role in many communities across Ontario. Co-operatives can be found in every community, both rural and urban in this province providing jobs and products and services. Many smaller co-operatives have been hard hit by the COVID-19 crisis – struggling to maintain their operations and their ability to generate revenue for programs and services. As employers, co-operatives are also grappling with the uncertainty, stress, and burnout it has caused among staff and members.

If these co-operatives are forced to close it will mean job losses and the closure of community programs and services that many Ontarians rely on.

#### LEAD, CULTIVATE AND CONNECT

Co-operatives are a *different* kind of business model that are driven by people, planet and profit. The Ontario Co-operative Association (OCA) supports, develops, educates and advocates for Ontario's 1,500+ co-operative businesses.

The Ontario government's Small Business Support Grant is an important down payment to provide funding to stabilize the co-operative sector. However, continued support is necessary in the form of stabilization funding as recommended by the Ontario Non-Profit Network (ONN).

### Thank You

As a result of the modernization of the co-operative legislation, detailed in Bill 138 tabled in fall 2019, our organization and Ontario's co-operative sector have had unprecedented support from government through the Ministry of Government and Consumer Services. Our sector has been included in the pandemic-related measures to support businesses and our Act has been updated alongside the other business acts to reflect the need for digital meetings now and in the future.

## Modernization of Regulations Still Needed

The COVID-19 pandemic has changed the landscape for many co-operative businesses and, in some cases, has created new opportunities for co-operative businesses. However, businesses wanting to utilize the co-operative model to increase community ownership and improve the economic outlook for Ontario are up against capitalization exemption limits set more than 25 years ago.

The current Offering Statement exemption limits have not been reviewed since 1995 and are inadequate for co-operatives to raise the money they need in order to capitalize their businesses. The members of the Ontario Co-operative Association are asking for a fivefold increase to the exemption limits to account for inflation and the countless changes to business capitalization over the past twenty five years.

## Recommendation

OCA's membership recommends government increase the exemption limits related to member purchases of securities and the total amount of issued securities. When an exemption from Offering Statements is available, a co-operative can raise funds from the sale of securities with fewer financial, regulatory and administrative burdens on the business. Even if a co-operative is exempt from Offering Statement requirements, it is still obligated to provide full disclosure to investors.

OCA recommends a fivefold increase in offering exemption limits:

1. An increase in the exemption cap on individual member purchased securities of \$1,000 per year or \$10,000 total to **\$5,000** per year and **\$50,000** in total.
2. An increase of total securities issued to members from an exemption cap of \$200,000 to a cap of **\$1,000,000**.
3. An increase in the cap on the number of security holders for an exemption from 35 to 50.

### Background

Co-operatives raise capital for their development and operations by offering to sell securities to members and non-members. Securities include both shares issued by the co-operative as well as other instruments like bonds or debentures. These securities are not traded on the open market, rarely fluctuate in value and may only be transferred with the approval of the board of directors. They are not purchased with a view to capital appreciation or to obtaining a high return.

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The regulatory process in Ontario for co-operative securities is called an “Offering Statement,” and is designed to provide up-to-date information so that prospective investors have the right information to make an informed decision while also ensuring that co-operatives can raise their capital from their members and other supporters without undue cost.

The Offering Statement process was created due to the fundamental difference between co-operatives and other forms of business: those other forms are funded by those wishing to earn profits from that business, while co-operatives are funded by those who benefit from the services offered by the co-operative to its members. The requirements for oversight in the former are considerable, and onerous, as they need to be. The potential for abuse in co-operative securities marketing is minimal, as the experience of the past 45 years has demonstrated.

With few exceptions, Ontario co-operatives are relatively small enterprises, with a close-knit membership base or source of community support that is strongly connected to their businesses. This membership and community connection reduces the need for the offering statement process because the members are more informed and connected to the everyday transactions of the business.

As per the current limits contained in the Regulations, a co-operative is exempt from submitting an offering statement to the Financial Services Regulatory Authority (FSRA) if:

- A member purchases securities for a total price of not more than \$1,000 per year and \$10,000 in total;
- All securities issued to members are not more than \$200,000 of issued securities; or
- The number of security holders is below 35.

## Co-operatives Rebuilding & Repairing Ontario

### Affordable Housing

Ontario had a housing crisis before the pandemic and now the Association of Municipalities Ontario (AMO) says “housing can be the first line of defense and part of the economic recovery” from COVID-19.

The Ontario Co-operative Association’s members Community Wealth Co-operative and Meridian Credit Union, have a simple, affordable housing development plan that can be replicated across the province and does not require government grants or subsidies. This housing model adapts to every community and will mean **affordable home ownership for Ontarians with gross household incomes as low as \$20,000** even in the regions of Ontario with high real estate values.

The unique financial model created by Community Wealth Co-operative in partnership with Meridian Credit Union builds on the leadership of the Federal, Provincial and Municipal governments who have all called for creative solutions to the affordable housing crisis, and especially the “missing middle” challenge of access to affordable workforce housing. The model utilizes a number of existing programs and policies by all three levels of government:

- The shared equity financing tools and affordable housing co-lending programs provided by CMHC for many years;
- Infrastructure Ontario’s lending programs to not-for-profits to develop affordable housing;

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- The Ontario government's progressive policy to utilize its surplus lands to develop affordable housing; and
- The Ontario government's "More Homes; More Choice" Housing Action Plan, which calls for creative partnerships and creative construction and financing solutions to address the housing crisis.

The profits from each housing development are invested in the creation of the next to ensure a perpetual supply of affordable housing. Additional profits are also invested as loans in community-based co-operative or social impact businesses to boost the economy as we recover from the pandemic.

The financial model will give full value to the Province or Municipality for the value of the land and deliver on four policy goals of the Provincial government:

- increase the supply of affordable housing in Ontario by providing more homes and more choices
- unlock the economic value of surplus lands held by the province
- stimulate economic development and alleviate poverty
- promote home ownership

### **Business Rescue**

Early indicators estimated 14% of Ontario's 426,500 SMEs would not survive the pandemic. One tried-and-true solution for business rescue and job preservation is converting businesses into co-operatives (business conversion to co-operatives; BCCs).

Co-operatives are member-led businesses guided by values of inclusivity, economic democracy, and concern for community. Co-owned by interested members rather than disconnected shareholders, co-operatives root capital locally and uphold rather than deplete local economies.

BCC research indicates that BCCs save jobs and preserve the productive capacities of communities by maximizing on the co-operative advantage. However, despite the enduring presence of co-operatives in Ontario, and the success of BCCs in other parts of Canada, especially Quebec, BCCs have been overlooked as an option for saving and sustaining SMEs in the province.

As thousands of business owners struggle to survive, conversions to worker and community owned co-operatives will provide these struggling owners with an exit strategy and a chance to save vital services and jobs in Ontario's communities.

### **Precarious Work**

In Ontario, before COVID-19, approximately 22% of jobs were characterized as precarious work, defined as having low wages and at least two of three other features: no pension, no union and/or small firm size. Women, racialized persons, immigrants, Indigenous persons, persons with disabilities, older adults and youth are disproportionately represented in this statistic. This percentage has increased significantly as a result of job losses due to the pandemic.

A new worker co-operative, in development with the resources of OCA, will enable self-employed workers to be more self-sufficient and entrepreneurial through better access to health, dental and insurance

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benefits, a secure invoicing system that will guarantee payment for invoiced work and help its members save for retirement.

This co-operative has the potential to help over 600,000 precariously employed Ontarians. The benefits of a more stable workforce will be far reaching by ensuring the most vulnerable have access to the same benefits as the fully employed.

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