



## CAPITAL RESERVE GUIDE

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## Introduction:

The City of London Housing Division is committed to helping Housing Providers manage their capital reserve funds in a proactive, ongoing and useful manner. This guide outlines the Housing Division's position and administrative approach on the capital planning, spending and investing activities of Housing Providers.

The purpose of this guide is to explain the different program rules that affect the capital reserve and investing, describe what is a capital item; explain when a capital item should be replaced and what it should be replaced with; clarify what kinds of costs cannot be paid for from the capital reserve; outline purchasing requirements; highlight the pertinent information pertaining to capital reserve planning and investing; and to provide additional resources.

## Definitions:

**Betterment:** A betterment is the cost incurred to enhance the service potential of a capital asset. It often involves the replacement of a major component of a capital asset with a significantly improved component. The betterment of an asset should create greater cash flows, either through more revenue (higher quality or quantity of output, more service hours per day, or a longer life) or through reduced operating costs.

**Building Condition Assessment:** A Building Condition Assessment (BCA) is a snap shot in time of the condition of various building elements and should be considered an exhaustive survey and analysis on a "bolt-by-bolt" basis. The BCA provides an estimated cost in present value dollars to repair or replace a building element and the year that the repair or replacement is likely to occur.

**Capital Work:** Capital work significantly increases capacity, quality or efficiency (i.e., a betterment) or extends the useful life of a capital asset beyond that expected when originally purchased (i.e., duplicates or exceeds the original useful life of the asset); or is a refit/replacement of an entire item; or is a new item/structure.

**Eligible capital expenditures:** As defined by the Social Housing Reform Act, 2000 (SHRA) is "an expenditure made by a Housing Provider on the capital account for the construction, renovation or repair of a housing project and includes reasonable expenditures incurred by the housing provider in planning and budgeting for those expenditures."

**Estimated Remaining Life:** The useful life of a building element remaining from the date of the visual condition assessment and assuming a normal level of maintenance.

**Life Expectancy:** The normal expected life span estimate of a building element in terms of years.

**Reserve Fund Forecast:** A Reserve Fund Forecast (RFF) builds on the information provided in the Building Condition Assessment (BCA). The RFF converts the current cost picture from the BCA to future values based on an assumed inflation rate. The RFF then demonstrates cash flow in and out of the Capital Replacement Reserve Fund using the opening balance and the annual contribution rate to the fund and an assumed investment rate. The resulting cash flow analysis of the reserve fund highlights when the fund will be depleted.

**Tangible Asset:** Assets having a physical existence or form and purchased for continued and long-term use in operating a housing project.

## Guide Statement:

### **1.0 What is the Capital Reserve Fund?**

Prior to devolution in 2002, every social Housing Provider maintained a capital reserve fund under the terms of its operating agreement with the Canada Mortgage Housing Corporation (CMHC) and/or the Ministry of Municipal Affairs and Housing (MMAH). The SHRA has replaced the operating agreements with MMAH for all providers prescribed pursuant to the Act and has established new administrative requirements. Federal unilateral housing programs continue to operate pursuant to their operating agreements, with CMHC having been replaced by the Service Manager as the administrative body.

The capital reserve fund was established to permit the accumulation of funds to cover the cost of replacing worn out capital items in the project. A contribution is made annually or monthly from the project operating funds to a capital reserve account(s). The annual contribution level to be transferred for prescribed providers is determined by the rules as outlined in the SHRA and O. Regulation 339/01, Part VI. For federal unilateral housing programs, the Service Manager is responsible for setting the level of the annual contribution and controls the use of funds including the determination of acceptable investment vehicles.

### **2.0 Government Rules**

#### **2.0.1 Non-profits and Co-ops that are covered by the SHRA**

The Social Housing Reform Act, 2000 (SHRA) Regulation 339/01, Part IV (Capital Reserve) sets out rules for contributing to, investing and using capital reserves. The SHRA also gives the Social Housing Services Corporation (SHSC) the power to set policies about investment of capital reserves. Non-profits and co-ops that are covered by the SHRA must:

- 1) Establish and maintain a capital reserve for its housing project(s) in a service area that includes: (a) the amount of the capital reserve the Housing Provider was required to maintain for their housing project(s) under an operating agreement immediately before the operating agreement was terminated under section 91 of the Act; (b) contributions made by the Housing Provider to the capital reserve; and (c) income earned from the investment of funds in the capital reserve.
- 2) Invest their capital reserves in the Social Housing Investment Funds.
- 3) Transfer all contributions allowed under the Act in a fiscal year into the fund within five months of the end of their fiscal year.
- 4) Not contribute an amount to its capital reserve fund for a fiscal year in excess of the its surplus for the fiscal year as determined under the Act.
- 5) Account for the funds and property in its capital reserve and the income and expenses of the capital reserve separately from its other property, income and expenses.
- 6) Use its capital reserve for its housing project(s) only to fund eligible capital expenditures related to those housing projects or make investments permitted under the Act.
- 7) Use funds in its capital reserve that were provided by a service manager in accordance with any conditions or requirements imposed by the service manager at the time the funds were provided.
- 8) Follow the investment policies set by SHSC Financial Inc.

#### **2.0.2 Non-profits that are not covered by the SHRA**

Housing projects/buildings developed under any federal program are governed by an operating agreement signed with CMHC. These documents set out the rules for capital reserves. The CMHC operating agreements specify the amount of money that must be put into the fund each year, what approvals are required before money can be spent from the reserve fund and what type of investments can be made. The SHRA rules about investing do not apply to these non-profits, however, they can participate in the Social Housing Investment Funds on a voluntary basis.

Housing Providers that decide not to participate in the Social Housing Investment Funds must invest their capital reserve funds in those investments permitted under their operating agreement and/or investment vehicles allowed by the Housing Division as follows:

- Deposit accounts at a Canadian bank, trust company or credit union
- Deposit receipts, deposit notes, certificates of deposits, acceptances, term deposits, guaranteed investment certificates, or similar instruments issued by a Canadian bank, trust company or credit union
- Bonds and debentures issued or guaranteed by the Government of Canada or Province of Ontario
- Canadian dollar money market mutual funds sold with no load or sales charge by a Canadian bank, trust company or credit union
- Treasury bills issued by the government of Canada
- Securities of mutual funds or investment funds managed or offered by SHSC

Investment must be:

- Either fully guaranteed or secured by a financial institution, or
- Debt obligations issued, guaranteed or secured by any level of government or and agency of the government.
- Interest earned or gains on the Capital Reserve Fund become part of the revenue of the fund, to be used for the same purpose as the reserve fund itself and reinvested accordingly.

Under the terms of their operating agreements, federal providers are required to obtain Housing Division approval for capital expenses. (see appendix C). Emergency capital expenditures do not require pre-approval. In order to streamline and simplify the process, the Housing Division will exempt Housing Providers from this requirement if an annual capital budget or multi-year capital plan is submitted for approval. The annual capital plan approach will eliminate the need for Housing Providers to request Housing Division approval for individual expenditures, thus saving administrative resources.

Once a plan is approved by their Board of Directors and the Housing Division, Housing Providers can spend in accordance with the plan without further Housing Division approvals. Documentation to substantiate any capital reserve expenditure(s) must be submitted with the Annual Information Return (AIR) for review.

### **3.0 What is a Capital Item?**

There are different kinds of capital items in a housing project, most of which have life spans extending beyond one year. They consist of the major building and property components, services and systems, project facilities and equipment. Capital items generally have an expected useful lifespan that will vary according to quality and project conditions. Major repairs or renovations, the benefits of which extend beyond the current fiscal period may also be considered as capital items.

Repairs that maintain the functionality of the building element but do not extend the life of the building element are not capital work. Partial replacements can be capital work if they are substantial enough that they would be left in place when the rest of the building element is replaced some time in the future.

In order to qualify as a capital expenditure, the item must meet the definition of a capital item based on the following guidelines:

1. Tangible assets that have a useful life of 10 years or greater.
2. Tangible assets that have been acquired with the intention of being used on a continuing basis.
3. The betterment of tangible assets. Betterment occurs when the useful life of a tangible asset is extended. (If an expenditure has both the attributes of a repair and a betterment, the portion considered to be a betterment can be considered a capital expenditure).
4. Tangible assets that add significant economic value to the property.

5. Tangible assets that enhance and/or extend the physical integrity of a structure.
6. A unit cost of **\$500** or more.
7. If broken, the item is repairable with the cost of repair not exceeding the cost of the purchase of a new similar item.
8. Is not consumable.
9. Must be for the replacement/betterment of a pre-existing capital item.

The capital item definition must be consistently applied in assessing capital requirements of the housing project(s). When classifying capital expenditures, emphasis needs to be placed on the purpose and outcome. Generally, capital expenses would include all costs (materials, supplies, services and sub-contracts) associated with the replacement and betterment. In addition, the non-refundable portion of the GST may also be included as a capital expense. In order to be eligible for the GST rebate, Housing Providers must have applied for and obtained “municipal status” on behalf of their non-profit from the Canada Revenue Agency (CRA).

Housing Providers wishing to utilize the capital reserve fund to purchase a capital item that was not part of the original capital cost of the project, must apply for and receive prior approval from the Housing Division. Consideration will be given on a case-by-case basis for all requests that have been made in writing using the format/form(s) as approved by the Housing Division.

NB: The useful life of some items would be extended to 10 years to recognize that they are betterments, rather than maintenance work.

#### **4.0 What is the list of Standard Capital Items?**

**Appendix A** is the STANDARD LIST of capital items that can be paid for out of the capital reserve fund. This list should be used as an initial point of reference for Housing Providers when determining which expenditures can be charged to the capital reserve fund and which are operating costs. The appendix is not intended as a definitive or comprehensive listing but as an illustration of the treatment of various types of expenditures. All capital expenditures will be reviewed on an annual basis as part of the AIR reconciliation process. Under section 24(8) of O.Reg 339/01, the Housing Division is the final authority and reserves the right to approve or deny any capital reserve expenditure(s).

#### **5.0 When should a Capital Item be Replaced?**

A capital item should be replaced when it is no longer performing or operating as it was meant to (end of its useful life), no longer cost effective to maintain or no longer safe (i.e. it represents a health or safety hazard). The useful life of a capital item ends when the cost of repairs or maintenance is no longer sensible because it will no longer extend the useful life by a reasonable length of time.

A capital item should also be replaced when a change is introduced to a by-law, building code, safety standard or other government regulation that applies to a capital item in an existing residential building and upgrading of the item is mandatory and subject to a fixed deadline. Some capital items are quite complex, such as moisture barriers or heating and other mechanical systems. The recommendation of a technical expert may be required to confirm that these items need replacing.

#### **6.0 What costs cannot be paid for from the Capital Reserve?**

The capital reserve is only meant to pay for replacing capital items or for the betterment of a tangible asset. It is in no way to be construed as a fund to replace the entire project once it has reached the end of its useful life.

Specifically, the capital reserve is not to be used for:

- 1) The cost of normal maintenance or repairs to keep a building(s) and property in good operating condition and to preserve the expected useful life of capital items. These kinds of activities are routine and are considered preventive maintenance and repairs. This would include but not limited to the following items:
  - repairs made to a tangible capital asset that maintain the current operating state of that assets. i.e. repairs to asphalt to restore it to an efficient operating condition, replacement of equipment parts, etc.
  - cleaning and janitorial services
  - elevator servicing
  - purchase of minor items such as small tools and office supplies
  - replacement of drapes and blinds
  - replacement of faucets, plumbing fittings and controls during regular routine maintenance
  - plumbing and electrical repairs
  - general building maintenance
  - snow removal service
  - grounds-keeping
  - appliance repairs
  - non-suite appliances, e.g. vacuum
  - measures of a substantially cosmetic nature/decorating
  - other items determined to be on-going repair and maintenance, ie caulking, unit painting, duct cleaning, tree pruning, re-sodding parts of the grounds, planting or removing trees, shrubs or flowerbeds, repairing fences, etc.
  - rectifying deficiencies from annual inspections and move-outs
- 2) The cost of replacing building components or mechanical services that are still operating and performing satisfactorily and meet all regulatory requirements, even if they are now obsolete and would not meet building regulations and codes for new construction. Where the replacement would result in immediate operating efficiencies, for example an energy conversion retrofit that will repay the investment over a short period of time (five years), an exception would be possible.
- 3) The costs of replacing capital items that have been damaged or destroyed as a result of deliberate abuse or vandalism. In those cases, the Housing Provider should try to recover the cost of replacement from the occupant(s) or from other persons who caused the damage, or through the Housing Provider's insurance policy. Where recovery is not possible replacement expenditures may be charged to the reserve. This requires that Housing Providers prepare and submit a business case for Housing Division review and approval.

## **7.0 What should capital items be replaced with?**

Capital items should be replaced with ones of equivalent quality, standards of performance and expected useful life, unless it can be demonstrated that:

- 1) a higher quality replacement is cost-effective because of lower maintenance or operating costs or a longer expected useful life; in this case, a cost benefit analysis that demonstrates the cost effectiveness (cost recovery over a period of about five years) of a higher quality replacement must be carried out; and
- 2) the capital item being replaced is generally considered as not appropriate for the project due to proven climatic, geographic or other influences or effects.

Replacements should meet all requirements of the National Building Code, provincial codes and any other authority having jurisdiction.

## 8.0 What are the capital purchasing requirements?

Housing Providers must have written comprehensive purchasing policies and procedures to specify the purpose and authority and to ensure the procurement process is fair and open to all and to purchase the best products and services for the lowest cost. The Housing Division recommends that the following criteria be incorporated into a Housing Provider's purchasing policies and procedures for capital costs:

For cost less than \$5,000: direct negotiation or direct purchase with written bids or quotes from three (3) sources. Items and contracts must be purchased following a clear, fair and objective procedure, including review of the prices and costs at least every three years.

For costs above \$5,000 and under \$25,000: competitive prices from three (3) sources through requests for quotations, tenders or proposals. A Housing Provider shall:

- I. prepare terms of reference and
- II. award the contract based on an assessment of the qualification of the consultant/contractor, the information provided in the quotations, tenders or proposals, and the price.

Where the requirements cannot be clearly defined and where a fixed price approach is not feasible, the Housing Provider shall negotiate a contract with a suitable qualified supplier using standard negotiating procedures that employ ethical practices.

For costs above \$25,000 and under \$100,000: competitive prices from three (3) sources through requests for tenders or proposals. The Housing Provider shall:

- I. establish the terms of reference,
- II. invite offers of service by (a) giving notice by public advertisement of the requirement to engage the services; or (b) inviting submissions from those individuals or firms who appear best qualified to meet the requirement of the engagement or to pre-qualified firms and
- III. rate the offers of service against the terms of reference to identify the offer of service which represents best value for money
- IV. select the firm offering the best value for money.

For construction work [see note (c), below]: public or invitational tender from at least three contractors/trades.

For costs of \$100,000 or more: public tender for construction work in all cases or competitive bids from at least three sources. The Housing Provider shall:

- I. establish the terms of reference,
- II. invite offers of service by (a) giving notice by public advertisement of the requirement to engage the services; or (b) inviting submissions from those individuals or firms who appear best qualified to meet the requirement of the engagement or to pre-qualified firms and
- III. rate the offers of service against the terms of reference to identify the offer of service which represents best value for money
- IV. select the firm offering the best value for money.

a) Purchasing requirements may be met through bulk purchasing. Where bulk purchasing agreements are entered into, the following conditions apply:

- the purchasing group must be able to demonstrate to the satisfaction of the Housing Division that its program is cost-effective in terms of pricing and product servicing.
- the purchasing agreement cannot include a user fee on the part of the purchasing group.
- the purchasing agreement must not exceed three years.

b) Generally accepted public and invitational tendering practices must be followed and documented on file.

c) In the context of replacing a capital item, “construction work” means work where the complexity of the work and the need for modifications to existing building components or structures would normally require specialized trades. In these circumstances, a tender package with specifications and detailed descriptions of the work involved would be required to ensure trades tender bids on the same basis.

d) It is recognized that in some cases there may not be enough suppliers/vendors/contractors to secure competitive bids from the minimum number of sources. Where that is the case, the Housing Division may consider and approve a lesser number based on the circumstances.

e) Housing Providers shall keep records of the appointment of all suppliers/vendors/contractors, together with their fees.

## **9.0 Capital Reserve Planning for Co-operative and Non-Profit Housing Providers**

### **9.0.1 What is a Capital Reserve Plan?**

Under the SHRA, Housing Providers are not required to have a capital reserve plan; however, the Housing Division strongly recommends that one is prepared in order to make the best use of the full range of investment options in the Social Housing Investment Funds. A capital reserve plan is a management tool that will help Housing Providers; (1) budget for the future costs for major repairs and replacements of capital items, (2) gain an improved understanding of the physical condition of their building(s), (3) maintain their building(s) in a safe, efficient and structurally-sound condition and (4) make good decisions about investing the capital reserve.

Capital reserve planning means taking a long-term view of the physical and financial needs of a property or building. A capital reserve plan looks at major repairs and replacements over a number of years and allows Housing Providers to plan, budget or pay for large replacements without large rent increases or emergency funding.

Housing Providers must remember that a capital reserve plan is based on predictions and that as things change, the plan will need to be updated for it to remain a useful management tool.

### **9.0.2 Why do Capital Planning?**

As the social housing stock continues to age it is more important than ever for Housing Providers to plan for the future. For many Housing Providers, the amount of money they have put aside in their capital reserve is not enough to meet future needs. In the past, many government programs set yearly capital reserve contributions that were simply too small.

Housing Providers should be analysing their capital replacement needs carefully and continuously. A capital reserve plan can help Housing Providers budget for the future with less chance of having unexpected replacement costs by ensuring that replacements are made at the right time and are affordable. It can also guide investment decisions, allowing Housing Providers to get the best return on their investments, and still have sufficient funds available when they are required.

### **9.0.3 What makes up a Capital Reserve Plan?**

Every capital reserve plan has two parts: a building condition assessment (BCA) and a reserve fund forecast (RFF)

A BCA is a snapshot-in-time of the physical condition of the various capital items of a Housing Provider's building(s). It is an estimate of when capital items will need to be replaced and how much it costs to replace them in today's dollars. It should contain the following:

- 1) a summary of the major findings
- 2) a description of the scope of work and assessment techniques used

- 3) definition of terms used
- 4) a list of each type of capital item, including:
  - a. how many there are,
  - b. the condition of each type of item,
  - c. anything unusual, such as deficiencies or abnormal wear and tear, or remedial work needed,
  - d. the current age and when they need replacement or a major repair,
  - e. how often they will need replacing after that,
  - f. how much the replacement would cost now,
  - g. how high a priority replacement should be (see APPENDIX B for approved guidelines)
- 5) Photographs to help in understanding the condition of capital items
- 6) Advice on ways to save money and extend the useful life of the capital items identified.
- 7) Summary replacement and cost schedule in electronic format for use in the RFF.

Part II of the capital reserve plan is the reserve fund forecast (RFF). It builds on the information provided in the building condition assessment. Using the BCA, a reserve fund forecast estimates the money going into and coming out of the capital reserve fund using the opening fund balance, the costs of replacements adjusted for inflation, the annual capital reserve contribution adjust for index and assumed investment earnings. The reserve fund forecast should tell Housing Providers:

- 1) how much they will need to spend each year
- 2) how much Housing Providers can expect prices of capital items to go up over time because of inflation
- 3) how much will be available, based on projected inflation and expected earnings on investment of funds
- 4) how much would need to be put into the capital reserve each year to cover future capital costs.

The reserve fund forecast is also a tool to help Housing Providers decide how much money to invest in each of the Social Housing Investment Funds, and for how long. Money set aside for major repairs or replacement that do not need to be done for many years can be put into a fund designed for long-term investments and vice versa.

#### **9.0.4 Annual Capital Budget**

The Housing Division requires all Housing Providers receiving subsidy under the SHRA prepare and submit a capital budget as part of their annual request for subsidy. The capital budget must be presented at a board meeting for approval. The capital budget must show:

- the proposed capital expense(s)
- the proposed source of funds, and
- the impact of the proposed expenses on the current and future operating budgets.

The capital budget will be reviewed and given final approval in conjunction with the annual subsidy estimation. Approval of the capital budget by the Housing Division will authorize the Board to spend the funds for capital expenditures for the purposes and from the sources specified, to a maximum of the total expenditures in the budget.

## **10.0 Capital Reserve Investing for Co-operative and Non-Profit Housing Providers**

### **10.1 Board Responsibilities around Investing.**

The Board of Directors is responsible to manage the organization's finances so that it can carry out its mandate. For co-operative and non-profit Housing Providers, the task of the Board is to ensure that money is available when its biggest asset – its building – is in need of major repairs and replacement. In order to be able to meet this fiduciary (or trust) responsibilities the board must adopt an investment plan and carefully monitor it.

The Board of Directors is responsible for learning about investment options and risks so that it can make prudent decisions about how to invest the corporation's money. To do a good job of managing financial resources, the Board needs:

- To understand program rules about investing in the SHRA or the projects operating agreement(s).
- To learn about investment options.
- To approve a plan, policy or by-law that defines the investment objectives and authority of the organization along with the roles and responsibilities of members, directors and staff in managing and administering the investments.
- To create or update job descriptions/management contracts to reflect the change/addition in administrative functions or roles with respect to investing activities.
- To adapt procedures for monitoring the performance of investments and changing the mix of investments over time.
- To keep records of investment reviews and decisions the board made.

The Trustee Act requires Boards of registered charities to approve an investment plan for donations and bequests if they are delegating investment decision to a financial manager. The SHRA does not define the term. If the Housing Provider is not a registered charity, their corporation may choose to adopt a by-law, a policy, or a plan depending on their governance practices. Sample investment policy(s) can be obtained through CHF or ONPHA.

## **10.2 Rules about Investing**

The Social Housing Reform Act has mandated the creation of an investment pool for capital reserve funds. This investment pool is made up of the newly created Social Housing Investment Funds. Under the terms of the Act, prescribed providers must invest their capital reserve in these new investment funds.

The Social Housing Investment program is designed to offer Housing Providers a range of returns on investment in keeping with a moderate balance of risk. In consideration of the respective capital requirements of each Housing Provider, risk may be minimized through the proper asset allocation and the realistic identification of when the funds will be needed.

The Social Housing Investment Program offers Housing Providers four mutual funds tailored to their needs and situation:

- 1) Social Housing Canadian Money Market Fund
- 2) Social Housing Short-Term Bond Fund
- 3) Social Housing Bond Fund
- 4) Social Housing Canadian Equity Fund

The decision of how to invest capital reserves between the four funds is solely the responsibility of each individual Housing Provider. However, the fund manager, Phillips, Hagar & North (PH&N) will work directly with Housing Providers to assist in determining which funds best meet their particular needs and circumstances, taking into consideration investment experience, whether there is a current capital plan in place and other factors. The Asset Allocation Questionnaire is a key tool in assisting both investors and PH&N to understand the optimal investments for each provider

## **10.3 Housing Provider refusing to invest their capital reserves in the Social Housing Investment Funds**

The Housing Division is responsible for ensuring that Housing Providers have complied with the SHRA rules governing capital reserves and investing, including the pooling of their capital reserves in the Social Housing Investment Funds. Refusing to invest in the Social Housing Investment Funds is a breach of the SHRA. Housing Provider will be required to report their participation in the Annual Information Returns (AIR).

The Housing Division will also be receiving periodic report from SHSC with updates as to the status of Housing Providers participation in the Social Housing Investment Funds. Failure to comply with the capital pooling requirement could result in the enactment of any or all of the remedies available to Service Managers under the SHRA.

## 11.0 Other Resources

A full range of workshops and guides to help co-ops and non-profits with capital reserve planning and investing of their reserves in the Social Housing Investment Funds are available through SHSC Financial Inc. Housing Providers can gain access to a comprehensive education program featuring tools and training on capital reserve planning, cash management, and investing. Additional resources can be obtained through CMHC, Ontario Non-Profit Housing Association (ONPHA) and Co-operative Housing Federation of Canada (CHF) and regional co-op federations along with the Ministry of Municipal Affairs and Housing (MMAH).

CMHC's Capital Replacement Planning Manual for Co-operative and Non-Profit Housing Providers can be found at the following link:

[http://www.Capital Replacement Planning: A Manual for Co-operative and Non-Profit Housing Providers | CMHC.cmhc.ca/en/ab/noho/noho\\_021.cfm](http://www.Capital Replacement Planning: A Manual for Co-operative and Non-Profit Housing Providers | CMHC.cmhc.ca/en/ab/noho/noho_021.cfm)

This manual will be useful to all providers who are undertaking Capital Replacement Planning. It can be used in conjunction with CMHC's Capital Replacement Planning software and User Guide to provide non-profit and co-operative housing sponsors with an effective tool for planning and budgeting for capital replacement projects associated with their housing portfolios.

Procedures / Guidelines:

## 12.0 Dealing with Exceptions/Appeals

Exceptions to the standard capital item list or appeals on disallowed capital reserve items are to be handled in accordance with the Housing Division's policy and procedures on business case submissions and review.

Appendices:

- Appendix A: Capital Item Listing
- Appendix B: Capital Work Priority System
- Appendix C: Application Request for Capital Reserve Fund Expenditure (Federal Programs Only)

Notes:

### 1. Reference documents:

The Replacement Reserve, A guide For Use (1998) – CMHC  
SHSC Financial Inc. – A Guide to Capital Reserve Planning  
Canadian Institute of Chartered Accountants Handbook - CICA  
Social Housing Reform Act, 2000 & O. Regulation 339/01, Part VI.  
Federal Operating Agreement  
Residential Tenancies Act



## APPENDIX A – Capital Item List

### Category: Sitework

Driveways  
 Parking lots  
 Sidewalks  
 Fencing  
 Swimming pool  
 Playground – equipment  
 Retaining walls  
 Garbage area and structure  
 Handrails  
 Storage buildings  
 Maintenance buildings  
 Drainage away from building

### Structure

Columns  
 Parapets  
 Foundation walls  
 Shear walls  
 Floor slabs

### Category: Building Interior

Ceilings – common areas  
 Ceilings – service areas  
 Ceilings – units  
 Walls – common areas  
 Walls –service areas  
 Walls – units  
 Floors – common areas  
 Floors – service areas  
 Floors – units  
 Stairs  
 Stairway handrails  
 Interior doors – common areas  
 Interior doors – service areas  
 Interior doors – units  
 Lighting fixtures –common areas  
 Lighting fixtures – service areas  
 Lighting fixtures – units  
 Plumbing fixtures – common areas  
 Plumbing fixtures – service areas  
 Plumbing fixtures – units  
 Tub, toilet, sink  
 Appliances – refrigerators  
 Appliances – stoves  
 Appliances – washers  
 Appliances – dryers  
 Appliance – other  
 Cabinetry  
 Countertops  
 Corridor handrails  
 Storage lockers  
 Office Equipment  
 Painting – common areas only

### Category: Mechanical Systems

Heating system – common areas  
 Heating system – units  
 Air make-up system  
 Exhaust system – bathroom  
 Exhaust system – kitchen  
 Exhaust system – centralized  
 Well water supply  
 Holding tank  
 Domestic water supply and distribution  
 Domestic water shut-off valves and mains  
 Domestic water – risers  
 Domestic water – units  
 Domestic water – hot water tanks  
 Supply – hot water heating system  
 Domestic water recirculating system  
 Domestic water treatment system  
 Sanitary waste removal system  
 Septic system  
 Storm water including roof drains  
 Garbage collection and compactor

### Category: Building Exterior

Roofing systems  
 Eavestroughs  
 Soffit and fascia  
 Major caulking & painting  
 Exterior walls  
 Canopies  
 Balcony decks  
 Balcony railings  
 Windows  
 Doors  
 Flashing  
 Mailboxes

### Electrical Systems

Distribution panel – main  
 Distriubtion panel – intermediate  
 Distribution panel – unit  
 Transformer  
 Door magnets  
 Exterior lighting system  
 Security door system  
 Security surveillance  
 Voice communication

### Category: Parking Garages

Garage ramp – enclosures  
 Garage ramp – entrance/exit  
 Garage ramp – interior  
 Garage slab – roof  
 Garage floors – suspended  
 Garage floors – slab on grade  
 Garage – walls  
 Garage – columns  
 Waterproofing – roof  
 Waterproofing – stairwell enclosures  
 Stairs  
 Drainage system trenches and drains  
 Lighting system  
 Ventilation system  
 Heating system – space heating  
 Heating system – ramp slab  
 Fire suppression – sprinklers  
 Fire extinguishers  
 Fire hoses  
 Security system  
 Overhead doors  
 Exterior doors  
 Interior doors  
 Interior service areas  
 Interior guardrails

### Category: Safety Features

Fire alarm – panel  
 Fire alarm system – heat detectors  
 Fire alarm system – smoke detectors  
 Fire alarm system – pull stations  
 Fire alarm system – bell  
 Fire hydrants  
 Fire alarm – sprinkler system  
 Fire department – connections and standpipes  
 Fire extinguishers  
 Fire hoses  
 Emergency lighting  
 Emergency generator

### Category: Regulated Changes

Regulatory or legislated requirements for changes that apply to existing buildings and where the authority having jurisdiction requires replacement or upgrading within a definite period of time.

# APPENDIX B

## Capital Work Priority System

### PRIORITY A – LIFE SAFETY

*Priority:* Hazardous conditions which cannot be deferred and which could lead to loss of life or critical or extremely severe injury must be corrected or removed as a first priority.

*Application Guideline:* This priority is reserved only for those conditions which are extremely hazardous and which, if not corrected, could lead to critical injury or loss of life. Application will be the exception and the required scope of work will generally be localized and normally include only a portion of a particular building element or building system. Typical examples include such items as loose brick, stucco or concrete on upper floors, extensively deteriorated or damaged balcony railings, damaged or loose railing anchorages and rotted wooden decks or stairs.

### PRIORITY B – STRUCTURAL INTEGRITY

*Priority:* Conditions which lead to the deterioration of structural elements of a building must be investigated and corrected if necessary; structural integrity must be maintained at all times. Failure to do so will lead to unsafe, life threatening conditions and will eventually render the building structurally unsound and physically obsolescent, incapable of performing the task it was designed to do.

*Application Guideline:* this priority is only to be assigned to the rehabilitation of structural building elements which have deteriorated to such an extent that they are no longer structurally sound and are not capable of performing their intended task.

Examples such as cracked columns, spalled or cracked shear walls, deteriorated balcony slabs, failing shelf angles, corroded structural steel supporting members and deteriorated suspended parking garage floor slabs are characteristic of this priority. Roof repairs would only be considered for assignment to this priority when the underlying supporting structure itself is extensively deteriorated and in danger of partial or complete failure.

### PRIORITY C – LEGISLATIVE REQUIREMENTS

*Priority:* All buildings and building systems must be upgraded so that they comply with revisions to existing legislation or to the requirements of newly adopted legislation.

*Application Guideline:* This priority is to be assigned only to work that is required to ensure that buildings comply with new requirements brought about by changes to applicable existing legislation, such as the Fire Code, or newly adopted legislation. Building elements that have deteriorated to an extent that they no longer comply with existing codes or by-laws are not eligible for this priority.

### PRIORITY D – POLICY AND DIRECTIVES

*Priority:* Included within this priority is the repair or replacement of building elements, which have reached the end of their useful life, building functionality and marketability. This work is necessary in order to maintain tenants' quality of life, ensure an integrated mix of market and rent-geared-to-income tenants and to prevent the building from becoming physically or functionally obsolescent.

The repair or replacement of building elements must protect the "value" and operational viability of the asset. The following sub-categories have been established in this priority:

- D1 – Marketability
- D2 – Building Functionality
- D3 – Life Expectancy

*Application Guideline:* For a job which includes several building elements of differing priority, consider the overall scope of work, the combination of elements and the specific work priorities to determine the overall capital work priority for the complete job.

Required work, which directly and significantly affects the overall marketability of the building, should receive priority consideration in the allocation of available capital funding.

#### PRIORITY E – COST-EFFECTIVE INITIATIVES

*Priority:* All buildings must be upgraded with cost-effective initiatives which improve the operational efficiency of a building and which have a reasonable payback (five (5) years or less).

*Application Guideline:* Buildings are to be reviewed for operating efficiencies and resulting initiatives, with a demonstrated payback of five years or less, are eligible for assignment to this priority category. Typically, energy management and water conservation programs will be included.

# APPENDIX C

## Application Request for Capital Reserve Fund Expenditure Federal Programs Only

	<b>The Corporation of City of London</b> <b>Planning and Development - Housing Division</b>	<b>APPLICATION REQUEST FOR</b> <b>CAPITAL RESERVE FUND EXPENDITURE</b> <i>(Federal Programs Only)</i>
<b>Information</b>		
Corporation Name:		Date:
Project Name: (If applicable)		
Contact Person:	Phone No.:	Fax No.:
Balance of Capital Reserve:		As of:
Priority of the replacement:	Life Safety: <input type="checkbox"/>	Structural Integrity: <input type="checkbox"/>
	Legislative Requirement: <input type="checkbox"/>	Policy & Directives: <input type="checkbox"/>
	Functionality: <input type="checkbox"/>	Building Expectancy: <input type="checkbox"/>
		Cost Effective Initiatives: <input type="checkbox"/>
Description of Item(s) to be Replaced or repaired:		
Last time Replaced:		Date of Last Inspection:
Description of Problem(s):		
<b>Estimate: (Please attach or fax copies of all Estimates/Quotes or Associated Contracts)</b>		
		Has a GST #?
1	Contractor:	Bid Price:      GST:      Total:      GST #: <input type="checkbox"/>
2	Contractor:	Bid Price:      GST:      Total:      GST #: <input type="checkbox"/>
3	Contractor:	Bid Price:      GST:      Total:      GST #: <input type="checkbox"/>
Contractor Approved:		
Provide Reason(s) for choosing Contractor:		
<b>Corporation Internal Approval</b>		
Was Corporation Spending Policy followed?		Yes: <input type="checkbox"/> No: <input type="checkbox"/>
Approved by Board or Authorized Delegate:		Yes: <input type="checkbox"/> No: <input type="checkbox"/>
Name:	Position:	Date:
<b>This section to be completed by the City of London Housing Division only</b>		
Recommendation:	Approved: <input type="checkbox"/>	Disallowed: <input type="checkbox"/>
		Approval Letter Sent: <input type="checkbox"/>
Comments:		
<i>Reviewed &amp; Approved by Financial Officer</i>		
Name:	Signature:	Date:
<i>Reviewed &amp; Approved by Technical Officer</i>		
Name:	Signature:	Date:
Recommendation:	Approved: <input type="checkbox"/>	Disallowed: <input type="checkbox"/>
Comments:		
<i>Approved by Director of Municipal Housing - (if required)</i>		
Name:	Signature:	Date: