
Subject: Capital Reserve Expenditures

Date: June 1, 2017
Replaces: August 1, 2012

Applicable to The policy and procedures contained in this document apply to the following:

- | | |
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| <input checked="" type="checkbox"/> Co-operatives | <input type="checkbox"/> Peel Access to Housing (PATH) |
| <input checked="" type="checkbox"/> Federal Non-Profit | <input type="checkbox"/> Peel Housing (Peel Living) |
| <input checked="" type="checkbox"/> Private Non-Profit | <input checked="" type="checkbox"/> Rent Supplement* |
- *incl. former OCHAP/CSHP
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Purpose The purpose of this document is to provide housing providers guidelines for reporting capital reserve expenditures.

Legislation [Housing Services Act, 2011, O. Reg. 367/11, s. 98\(6\) & \(7\)\(2\).](#)

Background The [Housing Services Act, O. Reg. 367/11 s. 98\(6\)](#) states:

A housing provider may use amounts from a capital reserve only for expenditures for the construction or renovation of, or substantial repairs to, the Part VII housing project for which the capital reserve is maintained, including reasonable expenditures for planning and budgeting for such construction, renovation or repairs.

The Service Manager, however also has the authority to establish conditions or requirements for a housing provider's use of their capital reserve funds under both the:

- Housing Services Act, 2011, O. Reg. 367/11, s. 98(7)(2), and
- Operating Agreements created between Section 95 housing providers and CMHC where the Region of Peel is the funder.

Definitions and Criteria

Capital Items

- are consist of the major building and property components, services and systems, project facilities and equipment
- generally have an expected useful lifespan that will vary according to quality and project conditions

Capital Work

Capital work is work done to significantly increase the capital item's:

- capacity
- quality or efficiency (i.e., a betterment)
- extends the useful life beyond that expected when originally purchased (i.e., duplicates or exceeds the original useful life of the asset)

Note: 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 sometime in the future.

Capital Reserve Funds/Expenditures

Capital reserve funds must be used on expenditures related to:

- major repairs
- upgrading
- replacement of original/existing building and site components

Capital reserve funds must **not** be used on expenditures related to:

- normal maintenance or repairs that pertain to the functionality of the building and property components
- funds replacement of an entire project once it reached its useful life

- Replacement of Capital Items** A capital item should be replaced when:
- it is no longer performing or operating as it was meant to (end of its useful life)
 - it is 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 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
 - upgrading of the item is mandatory and subject to a fixed deadline

Note: 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.

Reporting Requirements

Reporting Capital Expenditures

[Appendix I](#) is a comprehensive list of all eligible capital expenditures. Housing providers are encouraged to use definition of capital items to identify the capital replacement items when using housing providers' capital reserve funds. To ensure clarity and consistency of reporting, all housing providers should use the indicated numbers and descriptions for each applicable item when completing section A6 of the [Annual Information Return \(AIR\) Form](#).

Invoices

Splitting a Single Invoice

Invoices cannot be separated to create independent expenditures that qualify under operating expenses.

Grouping Invoices

Separate invoices cannot be grouped or combined to create one expense that can qualify under capital expenses.

Eligible Expenditures

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

Eligible Expenditures		
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.	

	Note: If the expenditure has both the attributes of a repair and betterment, the portion considered to be 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 \$3000 or more (refer for definitions of capital items). Note: An amount more than \$3,000 could be operating expense based on the definition and nature of the work	
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	If broken, the item is repairable with the cost of repair not exceeding the cost of the purchase of a new similar item	
9	It is not consumable	
10	Must be for the replacement/betterment of a pre-existing capital item	
11	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.	
12	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, an exception would be possible	

Expenditures Requiring Approval

Capital Items not part of Original Capital Cost

Housing providers wanting 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 Programs Division. Consideration will be given on a case-by-case basis for all requests that have been made in writing.

Damaged or Destroyed Capital Items – Deliberate Abuse or Vandalism

Where a capital item has been damaged or destroyed as a result of deliberate abuse or vandalism, 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, housing providers are required to prepare and submit a business case to the Housing Programs division for review and approval before replacement expenditures are charged to the reserve.

Ineligible Expenditures

Capital items and activities that are considered preventative maintenance and repairs, are **not** eligible for capital reserve funds. This would include but not limited to the following items:

Ineligible Expenditures		
1	Repairs made to tangible capital assets that maintain the current operating state of those assets. i.e. repairs to asphalt to restore it to an efficient operating condition, replacement of equipment parts, etc.	
2	Cleaning and janitorial services	
3	Elevator services	
4	Purchase of minor items such as small tools and office supplies	
5	Replacement of drapes and blinds	
6	Replacement of faucets, plumbing fittings and controls during regular routine maintenance	
7	Plumbing and electrical repairs	
8	General building maintenance	
9	Snow removal service	
10	Grounds-keeping	
11	Appliance repairs	
12	Non-suite appliances, e.g. vacuum	
13	Measures of a substantially cosmetic nature, i.e. decorating	
14	Other items determined to be ongoing repair and maintenance, i.e. caulking, unit painting, duct cleaning, tree pruning, re-sodding parts of the grounds, planting or removing trees, shrubs or flowerbeds, repairing fences, etc.	
15	Rectifying deficiencies from annual inspections and move-outs NOTE: See Exceptional Circumstances section for unit turnovers.	

Exceptional Circumstances

Housing providers are required to contact their Housing Programs Specialist to discuss exceptional circumstances and obtain approval before charging the item under capital reserve expenditures; for instance:

- circumstances that do not meet the criteria identified in this policy
- repairs that requires capital expenditures that were not identified in the housing provider's three year plan
- circumstances that are considered **exceptional** in nature
- damages to units that are extensive and need considerable amount of cost and effort to reinstate those units to a marketable condition (i.e. unit turnovers)

Questions

If you have questions or require clarifications on how to categorize items listed on Appendix I, please contact your Housing Programs Specialist.

Appendix I: Capital Reserve Expenditures – Eligible Capital Items/Work

Building Components			
This appendix offers housing providers a comprehensive list of building systems and components categorized and numbered for consistency of reporting. Please include the corresponding code number when completing the A6 section of the AIR Form .			
1.0 SITE			
1.1	Concrete patios	1.8	Parking lot, driveways, sidewalks
1.2	Concrete sidewalks and curbs	1.9	Playground equipment
1.3	Fencing – perimeter & unit	1.10	Retaining walls
1.4	Garbage pad	1.11	Sheds/storage
1.5	Grounds/landscaping	1.12	Sidewalks, stairways, ramps
1.6	Interlocking brick pavers	1.13	Site maintenance equipment
1.7	Miscellaneous (signs, benches etc.)		
2.0 SITE SERVICES			
2.1	Domestic water service	2.4	Natural gas supply
2.2	Electrical power supply	2.5	Sanitary service
2.3	Foundation drainage	2.6	Storm water service
3.0 BUILDING STRUCTURE			
3.1	Balcony decks	3.4	Railing (all types)
3.2	Floor slabs	3.5	Structural walls (load bearing)
3.3	Foundation walls	3.6	Structural columns
4.0 BUILDING EXTERIOR			
4.1	Balcony/Terrace/Patio door	4.6	Exterior wall cladding
4.2	Building entry (doors, glass, frames)	4.7	Flashing
4.3	Caulking, sealants, weather stripping doors	4.8	Roof anchors
4.4	Eaves troughs, fascia, soffits, downspouts	4.9	Roofing
4.5	Exterior painting	4.10	Windows
5.0 PARKING GARAGE			
5.1	Carbon Monoxide Detection/Control System	5.7	Ramps
5.2	Columns	5.8	Ventilation/Exhaust System
5.3	Drainage System	5.9	Walls
5.4	Heating System	5.10	Floor/Slab
5.5	Lighting fixtures	5.11	Waterproof membrane
5.6	Overhead doors		

6.0 BUILDING INTERIOR			
6.1	Accessibility features/modifications	6.12	Handrails – corridors
6.2	Appliances – stoves, refrigerators, washers, dryers, A/C units	6.13	Interior doors – within units
6.3	Bathroom accessories – sinks, tubs, toilets, fixtures, grab or towel bars, tub enclosures, shower stalls, and cabinets or vanities	6.14	Kitchen accessories specific to sinks, taps, tile, and storage
6.4	Cabinetry/Countertops	6.15	Kitchen cabinets and countertops – complete replacement is capital
6.5	Drapes or blinds – common/service areas	6.16	Lockers
6.6	Drapes or blinds - units	6.17	Locks/keying systems
6.7	Entrance doors - nits	6.18	Maintenance equipment
6.8	Exit stairway/stairwell finishes	6.19	Service or common area doors
6.9	Flooring – common/service areas	6.20	Suspended ceiling
6.10	Flooring – units	6.21	Wall and ceiling finishes – common/service areas
6.11	Furnishings – common/service areas	6.22	Wall and ceiling finishes – units
7.0 ELECTRICAL SYSTEM			
7.1	Baseboard/wall mounted heaters	7.6	Site lighting/pole lighting
7.2	Common and service area lighting	7.7	Suite lighting
7.3	Distribution panels/boxes, wiring – units	7.8	Transformer
7.4	Enterphone or intercom system	7.9	Unit door bells
7.5	Main distribution panel		
8.0 MECHANICAL and PLUMBING			
8.1	Air conditioning – chiller	8.13	Make up air units
8.2	Circulating pumps	8.14	Plumbing fixtures and controls
8.3	Common area, laundry room exhaust fans	8.15	Plumbing piping systems
8.4	Domestic cold water supply	8.16	Radiators
8.5	Domestic hot water supply	8.17	Recycling Handling System
8.6	Domestic water storage system	8.18	Sanitary and storm drainage
8.7	Garbage bins	8.19	Sump Pumps
8.8	Garbage Handling System (compactor, chutes, etc.)	8.20	Unit exhaust fans, range hoods
8.9	Heating boilers	8.21	Baseboard heaters
8.10	Heating piping/valves	8.22	Incremental Heating/Cooling Units
8.11	HVAC – central heating & cooling	8.23	Domestic hot water tanks
8.12	Fan coil units	8.24	Furnaces
9.0 FIRE, LIFE-SAFETY, SECURITY			
9.1	Alarm control panel	9.8	Fire code compliance

9.2	Alarm signal devices	9.9	Fire pumps
9.3	Controlled access system	9.10	Generator & transfer switch
9.4	Detectors – common areas	9.11	Hose and cabinets
9.5	Door operators	9.12	Security alarm systems
9.6	Emergency lighting	9.13	Security camera systems
9.7	Exit signs	9.14	Smoke & heat detectors – units
10.0 ELEVATOR			
10.1	Elevator upgrades/replacements	10.2	Elevator cab finishes
11.0 OTHER			
11.1	Building condition assessments, reserve fund studies, energy audits		
11.2	Code compliance		
11.3	Computers – hardware, software, internet, wiring etc.		
11.4	Energy efficient initiatives		
11.5	Environmental remediation – mold, asbestos, etc.		
11.6	Insulation – replace/upgrade		
11.7	Office equipment – lease		
11.8	Office equipment – purchase		
11.9	Unit Turnovers <ul style="list-style-type: none"> Housing providers are required to obtain prior approval from the Housing Programs division for combined expenses (exclusive of replacement of appliances and/or equipment) over \$4000 to refurbish an individual unit before it is charged under capital reserve expenditures 		
11.10	Other <ul style="list-style-type: none"> check with your Housing Programs Specialist for clarification Federal Providers are required to obtain prior approval from the Housing Programs division for items that are not listed on this table 		