

# On-Reserve Non-Profit Housing Program

## *Understanding Operating Agreements*



### KEY TERMS IN OPERATING AGREEMENTS

#### **Common to both pre-1997 and post-1996 non-profit housing programs**

These are some of the more common terms found in the Operating Agreement for the Pre-1997 and Post-1996 On-Reserve Non Profit Housing Programs.

##### ***Replacement Reserve***

At the time of commitment, an amount is determined to be set aside each year. These funds are to be deposited annually in a separate restricted interest-bearing bank account. These are to cover the cost of replacing capital items. *Details, including eligible items, are outlined in Schedule A of the Agreement.*

##### ***Subsidy***

This is the federal assistance provided to a First Nation from CMHC to help meet project operating costs.

##### ***Sound Management Practices***

These practices include:

- maintaining proper books and records (including those related to the allocation of units)
- managing the rental programs
- providing for fire insurance coverage
- undertaking maintenance programs to ensure houses meet a minimum health and safety level and are in a satisfactory state of repair

Throughout the agreement, CMHC may request to inspect or review records or documents pertaining to the Projects in the program.

### ***Reporting***

Within four (4) months after the end of the fiscal year, the First Nation agrees to submit their annual Financial Statements specific to their Section 95 portfolio. Reporting requirements are precise and resources such as the *Here's Help with your Financial Statements* guides (pre-1996 and post-1996) assist in ensuring that they are met.

### **Specific to the Pre-1997 Non-Profit Housing Portfolio**

#### ***Subsidy Surplus Fund***

Any operating surpluses that remain after all costs and expenses are paid are to be deposited to a separate restricted interest-bearing account, up to a maximum of \$500 per unit. These funds are to offset future operating deficits, as units become more costly to maintain.

#### ***Rent Requirements***

When actual revenue (rent, social assistance, etc.) collected by the program is not sufficient to result in a breakeven or surplus financial position, the First Nation is expected to make a financial contribution to the program to cover the shortfall.

Rent-Geared-to-Income is a beneficial rent regime as it supports rents being affordable for households with lower incomes. Families with higher incomes will pay more for their housing and families with lower incomes will pay less.

### **Specific to the Post-1996 Non-Profit Housing Portfolio**

#### ***Operating Reserve***

Any accumulated operating surplus after all costs and expenses are paid is deposited to a separate restricted interest-bearing bank account called an Operating Reserve. The funds in the Operating Reserve are to offset future operating deficits, as units become more costly to maintain.

#### ***Revenue requirement - Minimum Revenue Contribution (MRC)***

The Minimum Revenue Contribution is agreed upon at the time the project is committed. This is the minimum revenue required to be contributed to the program. It must be funded annually to a specified level, through the collection of occupancy charges, other First Nation funds, or a combination of both.

### ***Client Selection Criteria***

The criteria developed by the First Nation to determine eligibility and selection of occupants for housing. The selection criteria and any subsequent changes must be made known to all Band members and be approved by a Band Council Resolution and shared with CMHC.

### ***Operating Cost Benchmark (OCB)***

This is an estimate of a project's operating costs, including:

- the Replacement Reserve fund allotment
- maintenance
- administration
- mortgage payments

The OCB is established by the First Nation at project commitment and is set for the life of the agreement with the exception of principal and interest changes that result from changes in loan interest rates.

### ***Schedule B***

Schedule B outlines the subsidy calculation and confirms how the subsidy is calculated. This includes the breakdown of the Minimum Revenue Contribution, per type of unit being built and the breakdown of the operating costs that are included

**For more information on this and other housing management topics, be sure to contact your CMHC Specialist.**



### **CONTACT INFORMATION**

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