Questions and Answers
Capital Replacement and Asset Management Plans

THE AGENCY FOR CO-OPERATIVE HOUSING

L'AGENCE DES COOPÉRATIVES D'HABITATION

What is a capital replacement plan?

A capital replacement plan is a roadmap for keeping your co-op in good repair into the future. A plan tells you

- how long the chief elements of your property should last, and
- how much money to put aside for replacements or major repairs.

A good plan is based on a building condition assessment (BCA) that identifies the condition of all parts of your building and estimates their remaining useful life, including their current and future replacement cost.

This guide from the Agency will tell you more about BCAs.

How is a capital replacement plan different from an asset management plan?

An asset management plan (AMP) goes one step further than a capital replacement plan. Like the latter, it tells how you will pay for replacing the components of your building when you need to do so. A complete AMP also sets out continuing maintenance and repair costs.

The AMP normally covers a period of at least 25 years. Over that period, the plan should map out a path that will leave your co-op with enough money to meet its regular expenses, while covering the cost of maintaining its property.

A complete AMP provides your co-op with

- a replacement schedule (which your AMP may call a renewal schedule) and
- a financial plan.

The AMP provides long-term budget spreadsheets that project annual operating revenues and expenses, capital expenditures and debt service. It includes additional spreadsheets that detail capital spending requirements, debt-service costs, projected housing charges and recommended reserve contributions.

The AMP further reviews financing alternatives and their effectiveness in balancing and implementing capital repairs, long-term savings for capital reserves and housing costs. The AMP recommends the borrowing, saving and housing-charge schedules that will provide the most promising scenario for implementing current capital projects, maintaining assets over time and managing co-op costs.

What does a capital replacement plan look like?

Like an AMP, a capital replacement plan has two parts:

- a replacement schedule, and
- a financial forecast.

In most cases the schedule lists all the capital items you will need to replace over a 30-year period. Then it estimates how long each item will last and its future replacement cost.

The financial forecast tells you how much you'll need to spend each year on capital repairs and replacements and indicates what you should be putting aside each year in your capital replacement fund.

Why do we need a plan?

Your co-op's buildings are getting older year by year and you need to know how long you can expect the various parts to last.

Having a plan—and following it—will help ensure that you have funds on hand whenever your property needs work. No doubt you've already replaced some roofs and other major items, like flooring and appliances, at least once. You need to plan for the next round of replacements. To be sure you don't overlook other parts of the property that are wearing out, a full-scale plan, based on a recent BCA, is essential.

While you are planning, you may find that you have funds that you will not need to spend on your building for some time. In that case, you can put that money into a longer-term investment that will earn a better rate of return.

Your members—present and future—may not think about the kind of plan you have, or whether you have one at all. However, they will like the results when you follow it. They will enjoy living in a well-maintained building where replacements are made as needed.

Are these plans reliable?

A plan is like a weather report: the further it looks into the future, the less reliable it is. For this reason, you should review and update your plan regularly. Your review should allow for unexpected building problems, changing costs and repairs that take place earlier or later than planned.

Here are other points to bear in mind in preparing a capital replacement or asset management plan:

1. A BCA may tell you that your building envelope is showing signs of failing. If so, you will need a more detailed study called a Building Envelope Condition Assessment (BECA).
2. Your BCA and BECA should square with each other. The estimated replacement cost for an item may not be the same in the two reports. You will want to ask why.
3. If your plan assumes a different replacement year for an item than is shown in your BCA or BECA, the plan should explain why. Remember to budget for extra maintenance costs if a replacement can't take place on time.
4. If you leave any items from the BCA or BECA out of your capital plan or add an extra item, include a note saying why you did this.
5. Your plan should include estimated project-management fees, taxes and contingency

allowances. And it should estimate future inflation and investment rates.

How much will a capital-replacement plan cost us?

Your BCA can run from $3,000 to $10,000. How much you spend will depend on such things as the size of your co-op, where it is and how many buildings you have.

How do we get started?

Our advice is to hire experienced professionals for both the BCA and the plan. CHF Canada and CHF BC offer planning for asset management. The Agency's technical-services staff can advise you on the process.

When you receive your draft building condition assessment, study it carefully. Key to getting a sound assessment is your detailed knowledge of your own co-op.

How do we use our plan?

Your capital replacement or asset management plan is a tool to help you manage your annual capital replacements and budget your reserve contributions. Each year at budget time, review the capital expenditures and reserve fund contributions set out in your plan for the next year.

To get the best value out of your plan, update it as you complete your capital replacements. Adjust your forecast if you find that some capital items need replacing sooner than expected or that others are lasting longer.

Change projections to actuals, adjust the projections, if necessary, and revise your contributions. We encourage B.C. co-ops to look to CHF BC for assistance with these updates and any decisions you need to make. In all other provinces, CHF Canada will help you with these concerns.

Does the Agency have a role in capital replacement or asset management plan?

If your co-op still has an operating agreement with Canada Mortgage and Housing Corporation (CMHC), the Agency can be helpful in reviewing your plan. In some situations, our approval is required.

All capital plans for deep-subsidy co-ops and co-ops with financial workouts need CMHC's approval. It falls to the Agency to review and recommend the plans to CMHC.

If your co-op has only a Rent Supplement or Rental Assistance Program agreement with CMHC, you do not need approval to spend from your reserves. And you do not need to submit your plans for approval, although we'd love to have you send us a copy.

When the Agency reviews our plan, what do you look for?

We check to see that your plan is based on a recent assessment of the current condition of your property, done by a professional, and a financial forecast that looks ahead at least 10 years.

If the plan shows a funding shortfall in any year, we will ask how you plan to bridge the gap. For instance, are you planning to borrow money? If so, where from?

Depending on our confidence in the plan, we can approve it for three to five years, where approval is required. You will need to submit an updated plan at the end of that period. The Agency will remind you to prepare an updated plan about a year before you need it.

If your BCA is no more than five years old, it may be recent enough to follow in updating your plan. If your BCA is older than that, you will need to have it updated before you revise your plan for Agency approval.

Why is Agency approval of our capital replacement or asset management plan important?

If your co-op still has a CMHC operating agreement, you'll have more freedom to spend when the Agency has approved your plan.

If we have approved your plan and you are contributing in full to your reserve, your co-op can use reserve funds to pay for any items that appear in the approval period of the plan without asking us to approve your spending.

Where can I find out more about capital replacement and asset management plans?

You can find resources on the Agency's website.

CHF Canada's Guide to Capital Reserve Planning avoids technical language and is easy to use.

The CHF Canada Resource Centre is another source of helpful information on keeping your co-op in good repair.

Go to the Agency's Guide to Private Financing for more information on borrowing.

Your local federation may also be able to help you.

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