

B

BULLETIN

Canada Mortgage and Housing Corporation

Federal Cooperative Housing Program (FCHP) Year 15 and Beyond: Reviewing the Level of Federal Assistance

AUGUST 2001

As you are probably aware, the operating agreement governing your cooperative under the Federal Cooperative Housing Program (FCHP) authorizes CMHC to review your operations in order to determine if the levels of federal assistance allocated to the cooperative may be reduced as of Year 16. This review effectively begins during Year 15 with a joint examination of the cooperative's operating budget by the cooperative and CMHC. This document explains what is expected from your cooperative and what will be the role of CMHC.



Purpose

Your project operating agreement under the 1986 to 1993 Federal Co-operative Housing Program (FCHP) provides for a market-based review of the level of Federal Assistance beyond Year 15. This bulletin aims to provide a guide to FCHP (ILM) co-operatives and their financial people for the application of this review.

Background

For the first 15 Years, the project operating agreement provides a formula for automatic annual adjustment of Federal Assistance based on inflation. The agreement then requires a review of each Co-operative's financial position in order to determine if a reduction of Federal Assistance is required.

Thus, beyond Year 15, rebalancing the difference between Market Rents and Regular Occupancy Charges reflects a responsible use of taxpayer money on a long-term program.



HOME TO CANADIANS
Canada



The Operating Agreement calls for a self-assessment by each Co-operative, subject to review by CMHC. This review will involve a look at the co-operative's revenues and expenses.

A Possible Reduction of Federal Assistance

Starting Year 16, Federal Assistance is subject to a potential reduction of up to 5% of Regular Occupancy Charges for Year 15. Reduction in Federal Assistance applies to Co-operatives having Regular Occupancy Charges below 85% of Market Rents because the key element of the program design here is that the reduction should not cause the residents of a Co-operative to pay Regular Occupancy Charges of more than 85% of Market Rents. Therefore, during Year 15, each Co-operative shall calculate the actual amount of reduction, if any, by which the Federal Assistance should be reduced in Year 16. The Maximum Reduction in Federal Assistance that can be applied in Year 16 is 5% of Regular Occupancy Charges for Year 15.

- Co-operatives that would be well above the 85% mark will not have any reduction.
- Those that would be just below the 85% mark will have a reduction of less than the maximum.
- From Year 17 on, the Maximum Reduction in Federal Assistance is readjusted annually according to the established inflation formula, and the actual reduction, if any, is recalculated.

How to Proceed:

Since each "Year" under the project operating agreement starts on the anniversary of the Interest Adjustment Date, it will usually be the case that a project's fiscal years will be quite different from the agreement Years. This distinction is very important in applying the procedure.

In Year 15

1. By the second quarter of Year 15, the Co-operative has to prepare up-to-date annual operating budgets for its full fiscal years overlapping the

whole of Year 15 and the first 9 months of Year 16. Depending on how the years overlap, this could involve up to three fiscal years' budgets. The budgets should show the usual annual adjustment of Federal Assistance, as well as all Regular Occupancy Charges.

2. The Co-operative should determine from the budgets the total of Regular Occupancy Charges for agreement Year 15. This could involve up to 2 fiscal year budgets. The Co-operative shall calculate the Maximum Reduction in Federal Assistance for Year 16, which is 5% of the total Regular Occupancy Charges for Year 15.
3. The Co-operative then has to apply this Maximum Reduction amount to reduce the Federal Assistance as shown in the fiscal year budget(s) covering the first 9 months of agreement Year 16, and revise that budget (those budgets) accordingly.
4. If the Co-operative believes that after this revision the Regular Occupancy Charges would have to exceed 85% of projected Market Rents during Year 16, the Co-operative should;
 - (a) research and ascertain the projected Market Rents for Year 16, and
 - (b) if necessary calculate a decrease in the Maximum Reduction to produce an Actual Reduction in Federal Assistance which causes the Regular Occupancy Charges for Year 16 to equal but not exceed 85% of the projected Market Rents for Year 16.

5. The Co-operative has to submit all the above information and calculations to CMHC during the second quarter of Year 15.
6. If necessary and on three months' notice, CMHC may modify the amount of the reduction calculated by the Co-operative.

Kindly note that regardless of the financial circumstances of the Co-operative in Years 15 and 16, it is essential to calculate the Maximum Reduction for Year 16. It will never again be calculated from scratch.



For Year 17 and beyond

1. The Maximum Reduction in Federal Assistance for any agreement Year following Year 16 corresponds to the Maximum Reduction in Federal Assistance of the preceding Year adjusted according to the established inflation formula.
2. Co-operatives having Regular Occupancy Charges much lower than 85% of Market Rents should directly budget the adjusted Maximum Reduction in Federal Assistance each Year. They should inform CMHC well in advance of each Year of the amount of the adjusted Maximum Reduction and the amount of the consequently reduced Federal Assistance, so that there is no misunderstanding as to the proper amounts.
3. In the event a Co-operative is of opinion that, for any Year following Year 16 the adjusted Maximum Reduction in Federal Assistance should not apply,

the Co-operative should follow the Market Rents and budget revision procedure stated above, and submit the information and calculations to CMHC during the second quarter of the preceding Year. If a Co-operative does not follow this procedure, the adjusted Maximum Reduction in Federal Assistance will apply.

Example

The following is an example of a project with an Interest Adjustment Date (IAD) of June 1, 1987; this example serves to illustrate the timeframes.

- Determining second quarter of Year 15: Agreement began on June 1, 1987. Year 15 begins on June 1, 2001. Operating budgets should be submitted between September 1, 2001 and December 1, 2001.
- Operating budgets to be submitted during second quarter of Year 15: Agreement began on June 1, 1987. Year 15 begins on June 1, 2001 and first

nine months period of Year 16 ends February 28, 2003. Annual operating budgets (real and projected) for all fiscal years overlapping this period should be submitted. If the fiscal year of the Co-operative begins January 1st, then annual operating budgets for fiscal years 2001, 2002 and 2003 should be submitted.

- Operating budgets to be submitted during second quarter of Year 20: Agreement began on June 1, 1987. Year 20 begins on June 1, 2006 and first nine months period of Year 21 end February 29, 2008. If the Co-operative is seeking a decrease from the adjusted Maximum Reduction, annual operating budgets (real and projected) for all fiscal years overlapping this period should be submitted. If the fiscal year of the Co-operative begins January 1st, then annual operating budgets for fiscal years 2006, 2007 and 2008 should be submitted.

If the adjusted Maximum Reduction is appropriate, the Co-operative should not submit its budgets to CMHC.

However, they still need to calculate the Maximum Reduction for Year 16 (5% of total ROC for Year 15) because this is the base for all following Years.

However, the amount of the reduction will be less than the maximum permitted, resulting in a partial decrease in assistance. In this case, the annual Federal Assistance would therefore be reduced by \$10.36 per month, per unit, leaving the Co-operative with \$184.61 per month in Federal Assistance, rather than \$194.97. The Actual Federal Assistance for the project in Year 16 would be \$75,320 rather than \$79,548.

EXAMPLE OF CALCULATION OF THE REDUCTION

Note: CMHC may excuse Co-operatives whose circumstances are well known and who have Regular Occupancy Charges clearly greater than 85% of Market Rents from performing the Market Rent exercise as obviously no reduction in Federal Assistance will be applicable.

The following example is that of a 34 unit Co-operative where the information has been broken down to reflect per unit per month figures. In this specific case, the Federal Assistance must be reduced since the Regular Occupancy Charges are less than 85% of the Market Rent.

Year 15 information

Regular Occupancy Charge (ROC)	\$796.39
Maximum Reducton (5% of ROC) =	\$39.82
Federal Assistance =	\$192.85
CPI Factor =	3.1%

Year 16 Subsidy Reduction

A: Estimated Year 16 ROC =	\$799.69
B: Maximum Possible Reduction for Year 16 (5% of Yr. 15 ROC) =	\$39.82
C: Increased ROC (A+B) =	\$839.51
D: Estimated Year 16 Market Rent =	\$953.00
E: 85% of Estimated Year 16 Market Rent =	\$810.05
F: Amount by which ROC exceeds 85% of Market Rent (C-E) =	\$29.46
G: Actual Year 16 Reduction =	\$10.36
H: Year 16 Federal Assistance (CPI - 2% Tilt) =	\$194.97
I: Actual Year 16 Federal Assistance (H-G)=	\$184.61
J: Actual Year 16 ROC (A+G) =	\$810.05

Want More Details?

For more detailed information on how this policy affects your co-op you may want to contact your regular CMHC representative.