Subject: Capital Reserve Expenditure Guidelines

Date: August 1, 2012

Applicable To

The information contained in this document applies to the following:

- Municipal & Private Non-Profit
- Co-operatives
- Federal Non-Profit
- Rent Supplement
- Peel Access to Housing (PATH)

*As an independent corporation of the Region of Peel, Peel Living is subject to Regional policies and standards for capital reserve expenditures and will continue to use their current process.

Content

This document contains the following information:

- Purpose
- Background
- Rationale for Policy
- Policy
- Exceptional Circumstances
- Legislation
- Appendix I – Eligible Capital Reserve Expenditures

Purpose

The purpose of this document is to provide housing providers with the Region of Peel’s Capital Reserve Expenditure policy. It includes criteria for housing providers to determine whether expenditures are to be covered using operating funds or capital reserve funds.

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:
This policy is intended to provide housing providers with criteria that clearly identifies which expenditures are to be considered an operating cost and which are considered a capital cost and charged to the provider’s capital reserve funds. It clarifies and simplifies this bookkeeping function for housing providers as well as the AIR review process for the Service Manager.

This section contains the following:

<table>
<thead>
<tr>
<th>Expenditures: Operational or Capital Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditures</td>
</tr>
<tr>
<td>Operating Expenditures</td>
</tr>
<tr>
<td>Expenditure Type based on Amount and Unit Count</td>
</tr>
<tr>
<td>Invoices</td>
</tr>
<tr>
<td>Grouping Invoices Together</td>
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<tr>
<td>Separating a Single Invoice</td>
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</tbody>
</table>

Housing projects have various expenses due to maintenance, repairs, and at times replacement of various systems and components. Housing providers need to determine if their expenditures are operating costs or capital costs and then charge the expenditures accordingly (to either operating or capital reserve funds). The sections below provide housing providers in Peel with the criteria to do this.

**Note:** The criteria was established based on housing providers’ use of capital reserve funds under O. Reg. 367/11, 98(6) and standard industry guidelines for costs that are considered capital expenditures.

Expenditures for the following items/reasons are always considered capital costs and are charged to the provider’s capital reserve funds:

- Major repairs
- Upgrades
- Replacement of original/existing building and site components, (includes all appliances, incremental heating/cooling units, domestic hot water tanks and furnaces)
- Building condition assessments
- Reserve fund studies
- Energy audits

Capital reserve funds should not be used to fund new constructions or additions of new building components **unless** the work is required to comply with building, fire or municipal codes, or other similar...
directions.

There are however occasions where a major retrofit project such as changing base board heaters to fan coil units (which is considered new construction or addition) is not required for compliance purposes but has long term benefit to preserving the project and therefore should be covered by capital reserve funds.

As such, housing providers should contact their Housing Programs Administrator at the Region of Peel to discuss any proposed new constructions or additions of building components they want to complete and fund using capital reserves.

Operating Expenditures

Expenditures for the following items/reasons are always considered operating costs:

- Wall and ceiling finishes in units
- Computers (includes hardware, software, internet, wiring)
- Leased office equipment
- Cleaning costs associated with:
  - Exterior wall cladding
  - Flashing
  - Drainage systems

Determining Expenditures as either Capital or Operating

Unless otherwise indicated in the sections above or in Appendix I, expenditures are determined to be either capital or operating based on the unit count for the project.

The following table outlines this criteria:

<table>
<thead>
<tr>
<th>If the housing project has...</th>
<th>and the expenditure is...</th>
<th>the expenditure is considered...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 100 units</td>
<td>less than $2,000</td>
<td>operating</td>
</tr>
<tr>
<td></td>
<td>greater than $2,000</td>
<td>capital</td>
</tr>
<tr>
<td>Over 100 units</td>
<td>less than $4,000</td>
<td>operating</td>
</tr>
<tr>
<td></td>
<td>greater than $4,000</td>
<td>capital</td>
</tr>
</tbody>
</table>

Invoices

Grouping Invoices Together

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

Note: For an exception regarding unit turnover refer to Appendix I: 10i

Separating a Single Invoice

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

There may, on occasion be scenarios that

• do not meet the criteria identified in this policy
• require capital expenditures that were not identified in the housing provider’s three year plan
• are considered “exceptional” in nature

If any of the above occurs housing providers should contact their Housing Programs Administrator to discuss the circumstances.

Legislation

*Housing Services Act, 2011, O. Reg. 367/11, s. 98(6) & (7)(2).*

Appendix I

Appendix I: Eligible Capital Reserve Expenditures offers housing providers a comprehensive list of building systems and components and the criteria necessary to determine whether expenditures on these items are considered capital expenditures.
Appendix I: Eligible Capital Reserve Expenditures

If expenditures are not specified below as either a “capital” or “operating” cost the housing provider should determine expenditure type based on unit count.*

*Reminder: Expenditures are charged to the capital reserve fund if the project has
- 100 units or less and expenses are greater than $2,000, OR
- over 100 units and expenses are greater than $4,000.

<table>
<thead>
<tr>
<th>Building Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Structure</td>
</tr>
<tr>
<td>1a) Balcony decks</td>
</tr>
<tr>
<td>1b) Floor slabs</td>
</tr>
<tr>
<td>1c) Foundation walls</td>
</tr>
<tr>
<td>1d) Railing</td>
</tr>
<tr>
<td>1e) Structural walls (load bearing)</td>
</tr>
<tr>
<td>1f) Structural columns</td>
</tr>
<tr>
<td>2. Exterior</td>
</tr>
<tr>
<td>2a) Balcony/patio doors</td>
</tr>
<tr>
<td>2b) Building entry (doors/glass/frames)</td>
</tr>
<tr>
<td>2c) Caulking/sealants/weather stripping</td>
</tr>
<tr>
<td>2d) Eavestroughs/fascias/soffits/downspouts</td>
</tr>
<tr>
<td>2e) Exterior painting</td>
</tr>
<tr>
<td>2f) Exterior wall cladding - All cleaning costs are operating costs</td>
</tr>
<tr>
<td>2g) Flashing - All cleaning costs are operating costs</td>
</tr>
<tr>
<td>2h) Roof anchors</td>
</tr>
<tr>
<td>2i) Roofing</td>
</tr>
<tr>
<td>2j) Windows</td>
</tr>
<tr>
<td>3. Interior</td>
</tr>
<tr>
<td>3a) Accessibility features or modifications</td>
</tr>
<tr>
<td>3b) Appliances (stoves/refrigerators/washers/dryers/A/C units) - All are capital costs</td>
</tr>
<tr>
<td>3c) Bathroom accessories (sinks/tubs/toilets/fixtures/grab or towel bars/wall tiles/tub enclosures/shower stalls/cabinets/ vanities)</td>
</tr>
<tr>
<td>3d) Cabinetry/countertops (common/service areas)</td>
</tr>
<tr>
<td>3e) Drapes or blinds (common/service areas and units)</td>
</tr>
<tr>
<td>3f) Entrance door (units)</td>
</tr>
<tr>
<td>3g) Exit stairway/stairwell finishes</td>
</tr>
<tr>
<td>3h) Flooring (common/service areas and units)</td>
</tr>
<tr>
<td>3i) Furnishings (common/service areas)</td>
</tr>
<tr>
<td>3j) Handrails in corridors</td>
</tr>
<tr>
<td>3k) Interior doors (units)</td>
</tr>
<tr>
<td>3l) Kitchen accessories specific to sinks/taps/tile/storage/stove Safe-T- Elements</td>
</tr>
<tr>
<td>3m) Kitchen cabinets and countertops</td>
</tr>
<tr>
<td>3n) Lockers</td>
</tr>
<tr>
<td>3o) Locks/keying systems</td>
</tr>
<tr>
<td>3p) Maintenance equipment</td>
</tr>
<tr>
<td>3q) Service or common area doors/suspended ceiling/wall/ceiling finishes</td>
</tr>
<tr>
<td>3r) Unit wall and ceiling finishes – Always considered an operating cost</td>
</tr>
<tr>
<td>4. Perimeter</td>
</tr>
<tr>
<td>4a) Concrete patios</td>
</tr>
<tr>
<td>4b) Concrete sidewalks and curbs</td>
</tr>
<tr>
<td>4c) Fencing (perimeter and unit)</td>
</tr>
</tbody>
</table>
4d) Garbage pad
4e) Grounds and landscaping
4f) Interlocking brick pavers
4g) Parking lots/driveways/sidewalks
4h) Playground equipment
4i) Retaining walls
4j) Sheds/storage
4k) Sidewalks/stairways/ramps
4l) Site maintenance equipment
4m) Miscellaneous (e.g., signs, benches)

5. Parking Garage

5a) Carbon monoxide detection/control system
5b) Columns
5c) Drainage system — All associated cleaning costs are operating costs
5d) Heating system
5e) Lighting fixtures
5f) Overhead doors
5g) Ramps
5h) Ventilation/exhaust system
5i) Walls
5j) Floor/slub
5k) Waterproof membrane

Mechanical Features/Plumbing/Electrical Systems

6. Mechanical Features and Plumbing

6a) Air conditioning (chiller)
6b) Circulating pumps
6c) Exhaust fans in common areas (including laundry room)
6d) Domestic hot and cold water supply
6e) Domestic water storage
6f) Garbage bins
6g) Garbage handling system (compactor/chutes)
6h) Heating boilers
6i) Heating piping/valves
6j) HVAC (central heating and cooling)
6k) Fan coil units
6l) Make up air units
6m) Plumbing fixtures and controls
6n) Plumbing piping systems
6o) Radiators
6p) Recycle handling system
6q) Sanitary and storm drainage system
6r) Sump pumps
6s) Unit exhaust fans/range hoods
6t) Baseboard heaters
6u) Incremental heating/cooling units — All are capital costs
6v) Domestic hot water tanks — All are capital costs
6w) Furnaces — All are capital costs

7. Electrical

a) Baseboard/wall mounted heaters
b) Common and service area lighting
c) Distribution panels/boxes and wiring in units
d) Enterphone or intercom system
e) Main distribution panel
f) Site lighting/pole lighting

g) Suite lighting

h) Transformer

i) Unit door bells

j) Elevator upgrades / replacements

### Additional Items

#### 8. Services

8a) Domestic water service  
8b) Electrical power supply  
8c) Foundation drainage  
8d) Natural gas supply  
8e) Sanitary service  
8f) Storm water service

#### 9. Safety and Security

9a) Alarm control panel  
9b) Alarm signal devices  
9c) Controlled access system  
9d) Detectors (eg. carbon monoxide/heat/smoke)  
9e) Door operators  
9f) Emergency lighting  
9g) Exit signs  
9h) Fire code compliance  
9i) Fire pumps  
9j) Generator and transfer switch  
9k) Hose and cabinets  
9l) Security alarm and camera systems  
9m) Unit smoke and heat detectors

#### 10. Miscellaneous

10a) Building condition assessments/reserve fund studies/energy audits - **All are capital costs**  
10b) Building and property codes compliance  
10c) Computers (hardware/software/internet/wiring) - **All are operating costs**  
10d) Energy efficiency initiatives  
10e) Environmental remediation (eg. mould/asbestos)  
10f) Insulation (replacement or upgrade)  
10g) Office equipment purchases  
10h) Office equipment leases - **All leases are operating costs**  
10i) Unit Turnovers*  

*Combined expenses to refurbish an individual unit (not including appliance replacements) that **exceed $4,000** are classified as **capital costs for all housing providers**, regardless of the project’s unit count.