



## Chapter 4

### OPERATING BUDGETS

We monitor and approve operating budgets for developments that receive rent subsidies and repayable assistance from BC Housing, because the budget is used to determine the amount of subsidy and assistance. Other housing programs, such as special purpose group homes, rent supplement programs and federally funded housing programs, don't require BC Housing approval, but still need to develop operating budgets.

## Why an Operating Budget Is Important

### a) PLANNING

The operating budget helps you plan the amount of money required for each cost category for a specific time period, based on past experience, current information and assumptions about the future.

The operating budget, including the provision for the replacement reserve, is used to calculate your economic rents — the estimated amount required per unit per month to cover the projected operating costs of the shelter component of the development.

### b) DETERMINING SUBSIDY

The amount of the subsidy and repayable assistance you receive from BC Housing is based on the economic rent set out in the operating budget, less the total rents/housing charges collected from residents and co-op members.

### c) MONITORING PERFORMANCE

The approved budget provides a benchmark to measure financial performance during the course of the fiscal year. The budget can be an effective tool to control spending and avoid deficits, by monitoring actual income and expenses against the budgeted amounts.

## Budget Process

### a) FIRST TIME BUDGETS

The budget for the first year your development opens is based on estimated operating costs. As a result, it's important to estimate these costs as accurately as possible to ensure the subsidy covers your operating expenses. Your Property Portfolio Manager will:

- Help you prepare the first budget for the development.
- Advise you how to forecast expenses.
- Provide estimates for some cost categories based on costs at similar sized developments.



Refer to [page 25](#) for a description of the budget categories and operating costs to include in your first time budget.

## **b) BUDGET RENEWALS**

We review and approve budgets annually for developments administered by BC Housing, except HOMES BC non-profit and co-operative developments. Housing providers with these developments can choose either a one-year or five-year budget cycle. Each option allows for a mid-year revision to adjust for unforeseen or unique financial commitments.

### **One-Year Budget Cycle**

With a one-year budget cycle, BC Housing reviews and approves your operating budget annually. To help you plan the budget, we forward a budget worksheet approximately three months before your fiscal year end. The worksheet includes budget amounts copied from the previous fiscal year and actual operating costs for previous years. (A sample budget review worksheet is included in the appendix on [page 58](#).)

When you receive the budget worksheet, review each category based on:

- Financial performance from prior years.
- Comparing the current year to date to actual costs.
- Goals for the coming year that have a financial impact on the operating budget.

Judge whether the budget amount accurately reflects actual operating costs. Make any applicable changes, include justification for the changes, and return the budget to your Property Portfolio Manager. If necessary, your PPM may ask you to provide additional information or supporting documentation to explain and justify the budget amounts.

### **Five-Year Budget Cycle**

Only groups with HOMES BC non-profit and co-op developments can select a five-year budget cycle, intended to give more experienced groups greater autonomy and responsibility for the budget process. Budgets are reviewed and approved by BC Housing every five years. In between, BC Housing calculates repayable assistance and rent/occupancy charge subsidies based on the economic rent for the building, using a formula based on the Consumer Price Index. (See the CPI Year section below.)

### ***Review Year***

During a review year, BC Housing reviews and approves budgets. Approximately three months before the beginning of your fiscal year, your Property Portfolio Manager will contact you to discuss the budget for the next fiscal year. The PPM may provide a budget worksheet, based on the prior years' budget, for you to review and make changes if required.



Review each category, based on financial performance in prior years, and compare the budget to current year to date actual costs. Decide whether the budget accurately reflects actual operating costs. Make any applicable changes, provide justification for the changes, and return the budget to your PPM, who may ask for additional information or supporting documentation to explain the budget amounts.

In the first five-year budget cycle, the review year takes place after the second anniversary of the occupancy of the building. During this review year, BC Housing evaluates the initial operating budget to ensure it reflects actual operating costs. Since the first time budget is based on estimated operating costs, you may need to adjust this initial budget when the actual costs are known.

The following timeline illustrates the timing of the review and CPI years in the first five-year cycle. After that, the budget is only reviewed at the beginning of each five-year cycle.

IAD Date	May 1, 2001
Fiscal Year End	August 31
First Time Budget	May 1, 2001 to August 31, 2002 (16 months)
CPI Year	September 1, 2002 – August 31, 2003
Review Year	September 1, 2003 – August 31, 2004
CPI Year	September 1, 2004 – August 31, 2005
CPI Year	September 1, 2005 – August 31, 2006
Review Year	September 1, 2006 – August 31, 2007 (Beginning of next 5 year cycle)

### ***Consumer Price Index (CPI) Year***

Between review years, BC Housing calculates your rent/occupancy charge subsidy and repayable assistance based on an estimated economic rent and non-RGI rent/occupancy charge. To calculate the estimated economic rent, we increase your previous year's operating budget and non-RGI rents using a formula based on the increase in the Consumer Price Index (CPI). To calculate the estimated non-RGI rent or occupancy charge, we increase your previous year's non-RGI rent/occupancy charge by 90 per cent of the CPI increase. A sample calculation for the CPI increase to market and economic rents follows:



**SAMPLE CALCULATION OF THE CPI ADJUSTMENT FOR OPERATING BUDGETS**

CPI Annual Increase (Decrease)		2.30%		
Number of Eligible Units		30		
Total Budgeted Expenses, previous year	\$ 383,661	\$ 1,065.73		Per Unit Per Month
Annual Mortgage Payments	\$ 227,375	\$ 631.60		Per Unit Per Month
Expenses excluding Mortgage Payments	\$ 156,286	\$ 434.13		Per Unit Per Month
<b>CPI Increase added to budget</b>				
2.30% x \$156,286	\$ 3,595	\$ 9.98		Per Unit Per Month
<b>Total Budgeted Expenses, current year</b>	<b>\$387,256</b>	<b>\$1,075.71</b>		Per Unit Per Month

**Sample Calculation of CPI Increase to Non-RGI Rents**

$\% \text{ CPI Increase} = 90 \% \times 2.30 \% = 2.07\%$

<b>Previous Non-RGI Rents</b>	<b>CPI Increase</b>	<b>New Non-RGI Rent</b>
\$ 578.00	\$ 11.96	<b>\$ 590.00</b>
628.00	13.00	<b>641.00</b>
658.00	13.62	<b>672.00</b>
\$ 728.00	\$ 15.07	<b>\$ 743.00</b>

If the CPI increase is insignificant, BC Housing will not make adjustments to the budget or market rents.

Once the market and economic rents are set, we recalculate the rent subsidy and repayable assistance for the next fiscal year and send you a copy of the CPI year budget, showing the CPI increase as a separate line item on your budget. We also advise you what the new estimated economic and market rents are, based on the CPI increase.



## Budget Approval Guidelines

Your Property Portfolio Manager approves budgets using BC Housing guidelines, which are based on:

- Per unit per month costs, net of mortgage payments, property taxes and replacement reserve funding.
- Average costs for housing developments of similar size, location and client type.

The guidelines help us assess whether the budget realistically projects costs. If we think the budget needs adjusting, we'll discuss any changes with you before the budget is finalized.

Under the approval guidelines, a PPM approves operating budgets with a 0-10 per cent variance over the previous year's budget, a Regional Manager approves budgets with an 11-25 per cent variance, and above 26 per cent, approval is required from a Regional Manager and the Director of Housing Operations.

For more information on the approval guidelines and average costs for housing developments, contact your PPM.

## Completing the Operating Budget

### a) GETTING STARTED

You can download a blank operating budget from our website at [www.bchousing.org](http://www.bchousing.org). The budget worksheet includes the expense categories to use when you:

- Plan your first budget.
- Review the next year's budget.
- Prepare your financial statements.

A detailed description of the costs to include under these categories begins on [page 27](#). When you're preparing the budget, remember to attach notes explaining the projected expenses you have listed.

If you are preparing your first time budget, include a justification for each category. For example, have you checked the amount of the property taxes with the municipality? Did you contact BC Housing's bulk insurance provider for a quote, or have you based the estimate on the amount you pay at another building? How many employees, hours of work or types of tasks are included in the salary figures? Will volunteers or caretakers perform maintenance work, or is the development large enough to warrant hiring a maintenance person to perform these duties?

For budget renewals, provide an explanation for any changes in projected costs. Discuss any Modernization and Improvement plans or unusual items with your PPM.



### **Allocating Common Costs**

If you have more than one building in your housing portfolio, a percentage of the common costs for administration, maintenance salaries, directors' liability insurance, accounting and audit fees should be allocated to each of the developments. Provide an explanation of the method you used to allocate the costs in your budget notes. Some commonly used methods for distributing these costs include:

- A percentage share of the total units,
- A percentage share of the total budget salary, or
- Use of space based on square footage.

Ensure the same allocation method is used consistently over the years.

### **GST**

If you are eligible for a GST rebate on operating costs, your budget should reflect the operating costs, net of the GST rebate. For more information on accounting for GST and eligibility for GST rebates, speak with your accountant or contact the Canada Customs and Revenue Agency at 1-800-959-1953 or [www.ccra-adrc.gc.ca/menu-e.html](http://www.ccra-adrc.gc.ca/menu-e.html).

### **Eligible and Ineligible Expenses**

We fund shelter-related costs only, which means you have to obtain funding from other sources for ineligible expenses. The costs should be supported through a sponsoring ministry or fundraising activities.

#### ***Ineligible Space***

Some shelter costs are not eligible for subsidy including:

- Leased space.
- Space for staff sleeping quarters.
- Childcare space.
- Community project space.
- Retail outlets.

If the building contains ineligible space, we will calculate the percentage of operating costs that are eligible for subsidy. For example, if 10 per cent of the building provides space for a commercial childcare operation or a live in caregiver, BC Housing would subsidize 90 per cent of your operating costs. Your BC Housing budget should only include the eligible portion of operating costs.



### ***Ineligible Expenses***

The operating budget you prepare for BC Housing should only include shelter-related costs that are eligible for subsidy. Ineligible activities may include, but are not limited to:

- Client care costs.
- Food.
- Medical supplies.
- Staffing for supportive care and community programs.
- Donations to other charitable organizations.
- Gifts to society/co-op members and tenants.
- Resident activities, parties and social functions not previously approved by BC Housing.
- Memberships in affiliated organizations, other than the BC Non-Profit Housing Association and the Co-operative Housing Federation of BC.

A sample budget, showing shelter and care expenses, is included in the appendix on [page 59](#) to help you prepare an operating budget with both components. Check with your PPM if you have any questions about what's eligible for subsidy and what's not.

### **b) BUDGET CATEGORIES**

When you're preparing the budget, use the following categories:

#### **Revenues**

- Tenant/Member Rent Revenue
- BC Housing Subsidy (Includes RGI subsidies and non-RGI repayable assistance)
- BC Housing Special Payments
- BC Housing – Modernization and Improvement Payments
- Canada Mortgage and Housing Corporation (CMHC) Subsidy
- Interest Revenue
- Other Revenue

*Laundry and Parking*

*Commercial Revenue*

*Sundry*



## **Expenses**

- Property Taxes and Licenses
- Land Lease
- Insurance
- Utilities
  - Heat and Hot Water*
  - Electricity*
  - Water and Sewer*
  - Garbage Removal*
- Maintenance
  - Maintenance Salaries*
  - Repairs and Maintenance*
  - Grounds Maintenance*
  - Service Contracts*
  - Non-Recurring Maintenance*
- Administration
  - Administration Salaries*
  - Office Overhead*
  - Accounting Fees*
  - Audit and Legal Fees*
- Replacement Reserve
- Contingency for Vacancy Loss
- Mortgage Payments (Principal and Interest)
- Building Rental
- BCNPHA/CHF BC
- Resident Involvement
- Market Rent Appraisal
- Extraordinary Expenses
- Modernization and Improvement



Your chart of accounts should also include the same categories, so you can compare actual operating costs to the budget. Here's a description of what to include under each of the expenses in the list:

- ***Property Tax***

Include the costs for municipal taxes in this category, as well as any license fees you pay for municipal or regional services.

Some municipalities include service fees for water and sewer with their property tax billing. Record these costs under the Water and Sewer category.

- ***Land Lease***

If you pay for a land lease separately, enter the amount here. If your land lease was prepaid and the cost was included as part of the mortgage, enter zero here.

- ***Insurance***

Insurance costs for liability, fire, theft, earthquake and other damages, and directors' liability should be entered on this line.

Your total insurance costs cannot exceed the cost of comparable coverage available through BC Housing's bulk insurance program. For more information on the program, refer to the *Operations Guide*.

- ***Utilities***

*Heat/Hot Water*

If the development has centralized heating for the common areas and residents' units, enter the total heat and hot water costs in this category. When the units contain individual gas and electricity meters in each resident's name, only enter the costs for heating hot water and the heating costs for common areas.

*Electricity (Excluding heat)*

Include the lighting costs for common areas and other electrical power costs.

If the development has electric heat, heating costs should be allocated to the Heat/Hot Water Category. If you are unsure of the amount of electricity you pay for heat and other electrical costs, you can contact BC Hydro for an estimate of the breakdown.

*Water/Sewer*

Include the amounts you pay for municipal water or sewer services. If you do not have municipal water and sewer services, include the costs to have a septic tank pumped, or for maintenance of a sanitary system or well in this category.

*Garbage Removal*

Include the costs for municipal garbage pick up or for a private waste removal company here.



- **Maintenance**

*Maintenance Salaries/Benefits*

Enter the salaries and benefit costs for caretakers, janitors, and contracted maintenance staff here. Allocate a portion of the maintenance salary and benefit costs to each building, if the caretaker or maintenance staff provide coverage for more than one building.

When a caretaker performs both maintenance and administrative tasks, a portion of the salary should be budgeted under each heading. For example, if 75 per cent of the job is maintenance work and 25 per cent is administration, budget 75 per cent of the salary in this category and 25 per cent under Administration Salaries. Keep back up budget notes in case you need to explain how you split the salaries at a later date.

If the caretaker receives reduced or free rent, caretaker benefits should include the difference between the market rent and the amount paid for rent. For more information about caretakers' rent, refer to the Rent Calculation section in the *Operations Guide*.

*Repairs and Maintenance*

Include maintenance expenses not covered by replacement reserve funds. Budget for plumbing and electrical supplies needed on site for repairs. Also include the costs for hiring plumbers, electricians and carpenters to make repairs and the cost for appliance repairs.

Equipment costs, including rental of building maintenance equipment, and janitorial supplies such as hand tools, pails and cleaning products are included in this section.

*Grounds*

Include maintenance contract costs for lawn maintenance and services such as pruning and landscaping work. Costs for minor repairs to pathways, parking areas and sidewalks are also included in this category. Budget for grounds equipment rental costs, fertilizer, plants, gasoline and other materials needed for grounds maintenance and repair.

*Service Contracts*

Include recurring contracts for services such as security, snow removal and pest control in this category. Also include service contracts for fire alarm and sprinkler inspections, elevator and intercom maintenance.

*Non-Recurring Maintenance*

Include extraordinary maintenance expenses in this category for minor, one-time maintenance costs not classified as capital maintenance. Some examples of a non-recurring maintenance item are:



### **Health and safety repairs**

- Fire safety equipment.
- Security lighting.
- Tree removal.

Replacement costs for grounds maintenance equipment, such as mowers, trimmers, and blowers, can also be included in this category.

Items budgeted in this category must be approved by your Property Portfolio Manager. Call your PPM if you have any questions about what can be included.

### • **Administration**

If you have more than one building, allocate a portion of the administration costs to each building and provide an explanation of the method you used for the allocation.

#### *Salaries/Benefits*

Enter full and part time salary and benefit costs for administrative staff, including office managers and clerical support staff. If the caretaker has administrative responsibilities, include a representative percentage of the salary in this section. Include property management fees, if approved by BC Housing.

#### *Office Overhead*

Include costs for office supplies such as paper, staplers, pens, etc., as well as office equipment rental in this section. Also include the rent you pay for an office not located at the development, if applicable.

Enter the expenses you incur for bank charges, telephones, cell phones, Internet service, and pagers. Include marketing costs and advertising costs for filling vacant units.

#### *Accounting*

Enter the fees you pay for bookkeeping or accounting service contracts. Salaries and benefits paid to a bookkeeper should also be included in this category.

#### *Audit/Legal Fees*

Enter the amount you pay to have financial statements audited and for legal services in this category.

### • **Replacement Reserve**

Enter the annual provision amount from the replacement reserve schedule. (See Chapter six for information on replacement reserves.)

### • **Contingency for Vacancy Loss**

Expenses cannot be charged to this budget item. The contingency for vacancy loss is intended to help the organization meet normal operating costs in times of moderate vacancies.



You may budget up to one per cent of total costs as a contingency for vacancy loss.

Calculate the average number of vacancies you experience over the fiscal year and budget for the vacancy loss on these units. For example, if you average four vacancies a year and the estimated market rent is \$600, multiply the estimated market rent of these units by the average number of vacancies, for a contingency of \$2,400.

Unused contingency funds cannot be carried over to cover future expenses, except for some HOMES BC programs where housing providers manage their own surplus or deficit. (Refer to Chapter five for information on surpluses and deficits.)

- ***Mortgage Payments***

Enter the amount of the mortgage payments (principal and interest) that must be paid during the fiscal year. Exclude the amount paid for property taxes, if your mortgage payments include an instalment for property taxes.

- ***Building Rent***

This category is only used for rent supplement developments and scattered apartment addresses under the Non-Profit Housing for the Disabled program – section 82(1)(a) of the National Housing Act. Enter the total amount of rent paid to the landlord for the apartment units or house.

- ***Membership and Conference Fees***

Include costs incurred to be a member of the BC Non-Profit Housing Association and the Co-operative Housing Federation of BC, and to attend their conferences in this category. BC Housing and the Canada Mortgage and Housing Corporation (CMHC) also approve limited travel expenses from areas outside the Lower Mainland. Contact your Property Portfolio Manager to discuss the allowable amounts in this category.

- ***Resident Involvement***

Include funding to support established resident associations and social committees. You can budget up to a maximum of \$24 per unit. The funding is intended to support resident relations activities that encourage resident involvement, such as committees and training. You can include funding to support co-op member involvement and training for the Board of Directors, committees and general membership. Your budget notes should include a detailed list of activities planned by the resident association or social committee.

For more information on resident involvement, refer to BC Housing's *Resident Involvement Kit*, or contact your PPM or BC Housing's Community Development Coordinator at 604-433-1711.

- ***Market Rent Appraisal***

Two programs require market rent appraisals: HOMES BC developments with non-RGI units and the Provincial Rental Assistance Program for Seniors. If you need to obtain a market rent appraisal, enter the appraisal cost in this category.



See [page 15](#) for more information on market rent appraisals, or contact the Property Portfolio Administrator at BC Housing's Home Office, at 604-433-1711.

- ***CPI increase***

This category is only used to show budget increases for HOMES BC developments on a five-year budget cycle. BC Housing calculates and enters the amount to determine the change in economic rents. The method used for calculating the CPI increase is shown on [page 22](#).

- ***Extraordinary Expense***

Include extraordinary, one-time expenses for non-maintenance items in this category, such as replacing software, a fax machine or other office equipment.

Your Property Portfolio Manager must approve items budgeted in this category. Call your PPM if you have any questions about what can be included here.

- ***Modernization and Improvement***

Only include Modernization and Improvement projects that have been pre-approved by BC Housing. For more information on these projects and/or capital planning, refer to the *Maintenance Guide* in this Housing Provider Kit, or contact your PPM.

## Other Revenues

Not all revenues you receive are considered shelter revenue. You need to record shelter and non-shelter *expenses* separately, and to distinguish between shelter and non-shelter *revenues*.

### **a) SHELTER REVENUE**

Shelter revenues include your tenant rent contributions or occupancy charges, rent subsidy and repayable assistance received for the period, interest on housing funds, and other building income, such as laundry and parking. Also include rental revenue for space in the common areas or a rooftop lease as operating income. For example, if the common room is rented out to community groups for meetings or activities, the revenue you receive for these activities is considered shelter revenue.

### **b) NON-SHELTER REVENUE**

Revenue you receive from memberships, interest on share purchases, donations, fund-raising events, and program funding from other ministry sources are non-shelter revenues. Exclude these revenues from shelter operations and report them separately as society or co-op revenues.



### **c) COMMERCIAL REVENUE**

Some developments contain commercial or non-residential space, such as community offices or retail outlets rented to third parties at fair market value. Under the terms of your operating agreement, surplus revenues received for commercial or non-residential space should be used to offset the operating costs of the shelter components. Contact your Property Portfolio Manager or Program Operations to discuss how to account for rental revenue from commercial space.

## **Mid-Year Review ~ Budget Revisions**

No budget can predict every circumstance that may affect your development during the fiscal year. Still, it's important to act immediately if you find a potential variance from your budgeted income or expenses, because delays in addressing the situation can lead to serious deficits, operational problems, and difficulties meeting financial obligations.

If your budget significantly underestimates operating costs in a particular category, such as property taxes or utilities, contact your PPM to discuss a mid-year budget review. If we approve a mid-year revision to the budget, we will recalculate the economic rent, and revise your subsidy to reflect this change.

## **Emergency Expenditures**

If there's an emergency such as water damage from flooding that creates unexpected expenses, contact BC Housing and your insurance company as soon as possible. Don't delay repairs that could affect the health and safety of your residents or further damage a building. We will review each situation and inspect the building. We can also help with repairs, specifications and tenders.

## **Mortgage Renewals**

Economic rents—the actual cost of operating the units—are recalculated whenever your mortgage is renewed. At this time, the information from the new loan is used to update the operating budget and revise your monthly subsidy payment to incorporate the new mortgage information.

Either BC Housing or CMHC will send you a letter requesting your approval to renew the mortgage for you, for all buildings except those developed under the Non-Profit Housing for Seniors rent subsidy program (Section 82 (1)(b) of the National Housing Act).