



Chapter 5

MANAGING SURPLUSES AND DEFICITS

For most developments administered by BC Housing, except those built under HOMES BC non-profit and co-operative operating agreements, we will either make up a deficit or request repayment of a surplus.

For these HOMES BC developments, you manage any surplus or deficit in your operating budget. The maximum rent/housing charge subsidy and repayable assistance we pay for any given fiscal year is the difference between the economic rents and the amount you collect from tenants and members for rent.

Operating surpluses and deficits differ from rent *subsidy* overpayments and underpayments. If the annual financial statement review for tenant rent contributions and non-RGI rents/housing charges shows the amount of rent subsidy or repayable assistance has been underpaid, BC Housing will make up this difference. And if the rent subsidy/repayable assistance has been overpaid, your organization returns this amount to us.

Operating Deficit

If your budget and cash flow projections realistically reflect costs and you monitor expenditures, you probably won't develop large deficits. However, if your operating expenses do exceed the amount of revenue received for the year, groups with HOMES BC developments carry and manage the deficit generated from operating the building. If you develop a deficit, there are several steps you can take to manage the deficit:

- Review your budget for areas where savings can be achieved, if expenses exceed projections.
- Take appropriate management action to address arrears or vacancies, if applicable.
- Use surplus funds to offset the deficit in operating costs.
- Establish monthly overdraft privileges with your financial institution.

If you experience a deficit and have not accumulated any surplus, your Property Portfolio Manager will work with you to resolve the problem. For example, if you have a major unexpected expense or a significant change in operating costs, BC Housing will work with you to adjust your budget to cover the expense through a mid-year budget revision.



Operating Surplus

Under the HOMES BC program, only developments with non-profit or cooperative operating agreements may retain an operating surplus.

For the majority of the federal/provincial programs, operating surpluses are repayable to BC Housing and/or CMHC. The exception is housing developed under the Non-Profit Housing for Seniors program (section 82(1)(b) of the National Housing Act) where CMHC allows the society to retain operating surpluses.

An operating surplus occurs when the operating revenue received for the year exceeds operating expenses. Your organization may develop an operating surplus through:

- Efficient management practices.
- Having volunteers perform tasks.
- Using sector cooperation to share staff, or buying in bulk to reduce costs.

The first priority for surplus operating funds is to repay any outstanding deficit from a previous year. In addition, surplus funds can be accumulated and used for shelter related expenses in subsequent years.

Accumulated Operating Surplus

If you have charitable status, your society is governed by the *Income Tax Act*, which contains specific rules for accumulating surpluses. There's a formula for determining the amount of surplus funds you can retain, although some exceptions are granted for longer-term fundraising efforts. Contact your local Canada Customs and Revenue Agency office, or call 1-800-267-2384 for details.

Under the terms of HOMES BC operating agreements, you can spend surplus accumulated operating funds on the shelter component of the building for:

- Capital renovations such as new kitchen cupboards, balconies, elevator upgrades, etc.
- Housing related programs such as a gardening program for tenants or training youth how to respond to emergencies.
- Loans to tenants paying non-RGI rents who need help paying the rent, because their incomes have dropped below the Core Need Income Threshold.

The operating agreement also allows “other payments approved by the Commission.” This clause gives us the flexibility to support ideas that may not fit into these categories, but serve the needs of the housing community.

Surplus funds can also be used to initiate resident participation and community building programs, such as a residents' association, resident/management advisory committees or resident employment opportunities.



Excessive Surplus

BC Housing reviews your accumulated surplus annually, using a surplus guideline of \$500 per unit as a typical maximum. Accumulated surplus amounts greater than \$500 may be considered excessive, but this amount can vary, depending on the size of the development and what you intend to spend the money on.

For example, at \$500 surplus per unit, an 80-unit development would have a \$40,000 surplus, and amounts above that may be considered excessive, while a four-unit development with an accumulated surplus of \$3,200 — or \$800 per unit — would not be considered excessive.

If you have excessive surplus funds and are not planning any capital expenditures, BC Housing may opt to redirect surplus funds greater than \$500 per unit to other housing needs.

Redirection of Surplus Funds

When your organization has paid off your repayable loan assistance for non-RGI units and surplus funds are accumulating, BC Housing staff may meet with you to discuss redirecting some of these funds to developing or redeveloping other affordable housing.