The Agency for Co-operative Housing
L'Agence des coopératives d'habitation

Questions and Answers on Capital Replacement Reserve Plans

What is a Capital Replacement Reserve Plan?

A capital replacement reserve plan is a strategy 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 their replacement or for major repairs.

Why do we need a Capital Replacement Reserve Plan?

Having a plan, and following it, will help ensure that funds are on hand whenever your property needs work. Your co-op's buildings are getting older year by year. 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. If you want to be sure you don't overlook other parts of the property that are wearing out, a full-scale plan is essential.

Once you know how much you'll need and how soon you can expect to spend on your building, you may be able to put some of your capital reserve fund into longer-term investments that pay a better return—another good reason to have a plan.

Your members—present and future—may not care much about your plan, but they will like the results when you follow it. They will enjoy living in a well-maintained building where replacements are made as needed.

What does a plan look like?

A capital reserve plan has two parts. First, the plan lists all the capital items that will need to be replaced during the building's lifetime. The plan then estimates how long each item will last and what it would cost if you replaced it today.

The second part is a reserve-fund study, also known as a forecast. The forecast tells you how much you'll need to spend each year on capital repairs and replacements, estimating future costs. The forecast then puts together this information with an estimate of what you will earn when you invest your reserve funds. The total gives you how much you should be putting aside each year. Be sure to get an electronic copy of the reserve fund study so that you can update it easily.

What does the Agency look for when approving a capital reserve plan?

The Agency wants to see that your plan is supported by a full assessment of the current condition of your property and a financial forecast that looks ahead at least 10 years. Ideally, your capital reserve plan will cover the next 20 years.

To be approved, your plan can't forecast a funding shortfall in the reserve during its first five years. If it shows a deficit after this period, your relationship manager will want to know how you expect to bridge this gap.

A plan is like a weather report: the further it looks to the future, the less accurate it is. For this reason, you will need to review and update your forecast—though not necessarily your building condition assessment—every three years. This will allow for unexpected building problems, changing costs, and repairs that are carried out earlier or later than planned. The updated plan, including the building condition assessment, then goes to the Agency for review and approval.

If your building condition assessment is no more than five years old, it is normally current enough to base your updated reserve fund study on. However, if your building condition assessment is older than that, you will need to have it updated before you revise your reserve fund forecast for Agency approval.

Why is Agency approval important for our co operative?

One benefit of having the Agency approve your plan is more independence for your co op. Once you've sent your plan to the Agency and had it approved, as long as you keep making the planned contributions to the reserve your co-op can spend on the capital work outlined in the plan for the next three years, without asking us again. When the end of the three years is in sight, we'll remind you to update your plan and send it to us before the approval period ends.

Plan or no plan, if you have any questions about your capital replacements, your relationship manager will be pleased to help.

How much money does our co-op need to set aside each year?

Likely more than it is setting aside now.

How much a co-op should contribute to its capital reserve depends on how much it already has on hand, its physical condition and the type of buildings it owns. The only way to know for sure how much you need to set aside is to develop a capital reserve plan.

How much does it cost to develop a plan?

As you know, your plan consists of a building condition assessment and a capital reserve study. Depending on the size of your co-op, its location, how many buildings you have and other factors, the cost of the two together can run from $3,000 to $10,000.

You should pay for these studies from your operating budget. But, if funds are short, you can charge the cost to your capital replacement reserve.

How do we get started?

Ask your relationship manager to help you get moving. We recommend that you hire professionals to do both the building condition assessment and the reserve fund study. The Agency has technical-services staff who can advise you on the process. When you receive your draft condition-assessment report, study it carefully. Your detailed knowledge of your own co-op is key to getting a realistic and accurate assessment.

What do we do with our plan once it is approved?

Your capital replacement-reserve 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, recast projections, if necessary, and adjust your contributions. Your relationship manager, supported by our technical-services team, is there to help you with these updates and any decisions you need to make.

The Agency will remind you to prepare an updated plan about a year before it is needed.

Where can I find out more about capital replacement reserve plans?

Your relationship manager can direct you to a number of good resources. Some are found on the Agency's website.

CHF Canada's Guide to Capital Reserve Planning avoids technical language and is easy to use. CMHC's Replacement Reserve Guide also has useful information about capital items. The CHF Canada Resource Centre is another source of helpful information on keeping your co op in good repair.

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