



[Home](#) > [Managing and Maintaining](#) > [Manage First Nation Properties](#) > [Finances](#)

Understanding Operating Agreement Terms

An overview of the terms used in the various Non-Profit Housing Program operating agreements.

In 1997, we made several major changes to our On-Reserve Non-Profit Housing Program. Because of these changes, new terminology has been used in all operating agreements implemented after 1996. This page provides an overview of the terms found only in the older or newer versions of the operating agreement. You'll also find a list of terms common to both versions of the operating agreement.

Terms common to both operating agreements

Replacement reserve

A specified amount that is deposited annually to a separate interest-bearing bank account. These funds are then used to cover the capitals costs of replacing major building components.

Subsidy

The financial assistance we provide to a First Nation. The subsidy is used to help meet a housing project's operating costs and to reduce the First Nation's revenue contribution.

Terms specific to post-1996 operating agreements

Operating reserve

The surplus accumulated after all costs and expenses are paid, which is held in a separate interest-bearing bank account. These funds are withdrawn to offset future operating deficits.

Minimum revenue contribution (MRC)

The First Nation's minimum annual contribution to the On-Reserve Non-Profit Housing Program. This amount is set at the time we commit to the housing project. We use it to calculate how much assistance we'll provide to the project.

The MRC can be collected through occupancy charges, other First Nation funding sources, or a combination of both. Together with our monthly subsidy payments, it forms the revenue base from which all project expenses are paid.

The MRC depends on the number of units in the project and the number of bedrooms per unit. For more information, see Schedule B of your project's operating agreement.

Client selection criteria

The criteria to determine who's eligible to occupy a unit in the housing project are developed by the First Nation. The selection criteria (and any changes made to them) must be approved by council and shared with us. They must also be shared with all community members.

Operating cost benchmark

An estimate of the project's operating costs, including an allotment for the replacement reserve fund. We use this benchmark when calculating the maximum subsidy for a project. It's established by the First Nation when we commit to the project. It also remains mostly unchanged throughout the term of the operating agreement. However, there may be adjustments to principal and interest caused by changes in loan interest rates.

Terms specific to pre-1997 operating agreements

Subsidy surplus fund

The surplus accumulated after all costs and expenses are paid, which is held in a separate interest-bearing bank account. These funds are withdrawn to offset future operating deficits. The subsidy surplus fund is limited to a maximum of \$500 per unit.

Rent geared to income

The charging of rents according to a tenant's income. Under this approach, families with higher incomes pay more for their housing, while those with lower incomes pay less. This ensures rents stay affordable for families with lower household incomes.

Maximum rent

The maximum allowable rent to be charged to a household for occupancy of a unit. Annual rent increases are applied by the First Nation. These increases are based on the Consumer Price Index or the amount needed to cover project operating costs, whichever is greater. Rent levels should be determined through income testing and verification.

A First Nation that does not do income testing must charge the maximum rent to all households. Alternatively, a First Nation may decide not to charge a tenant rent. In this case, it must contribute an amount to the project equal to what would've been collected from the tenant. This contribution must be made by the First Nation and can't be reported as a receivable on its balance sheet.

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