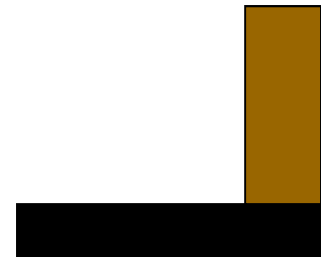


Condominium Reserve Fund Studies

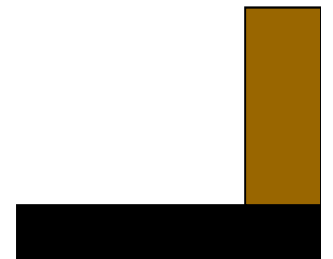


**Presented By:
Devin Baker, B.Comm**



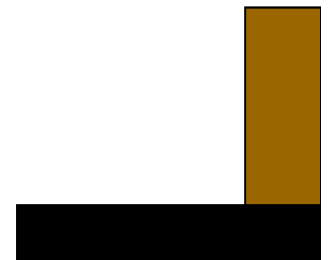
Agenda

- What is a Reserve Fund Study
- Purpose of a Reserve Fund Study
- What comprises a Reserve Fund Study
- Elements of the Reserve Fund Study
- Determining Reserve Fund Components
- How to interpret a Reserve Fund Study

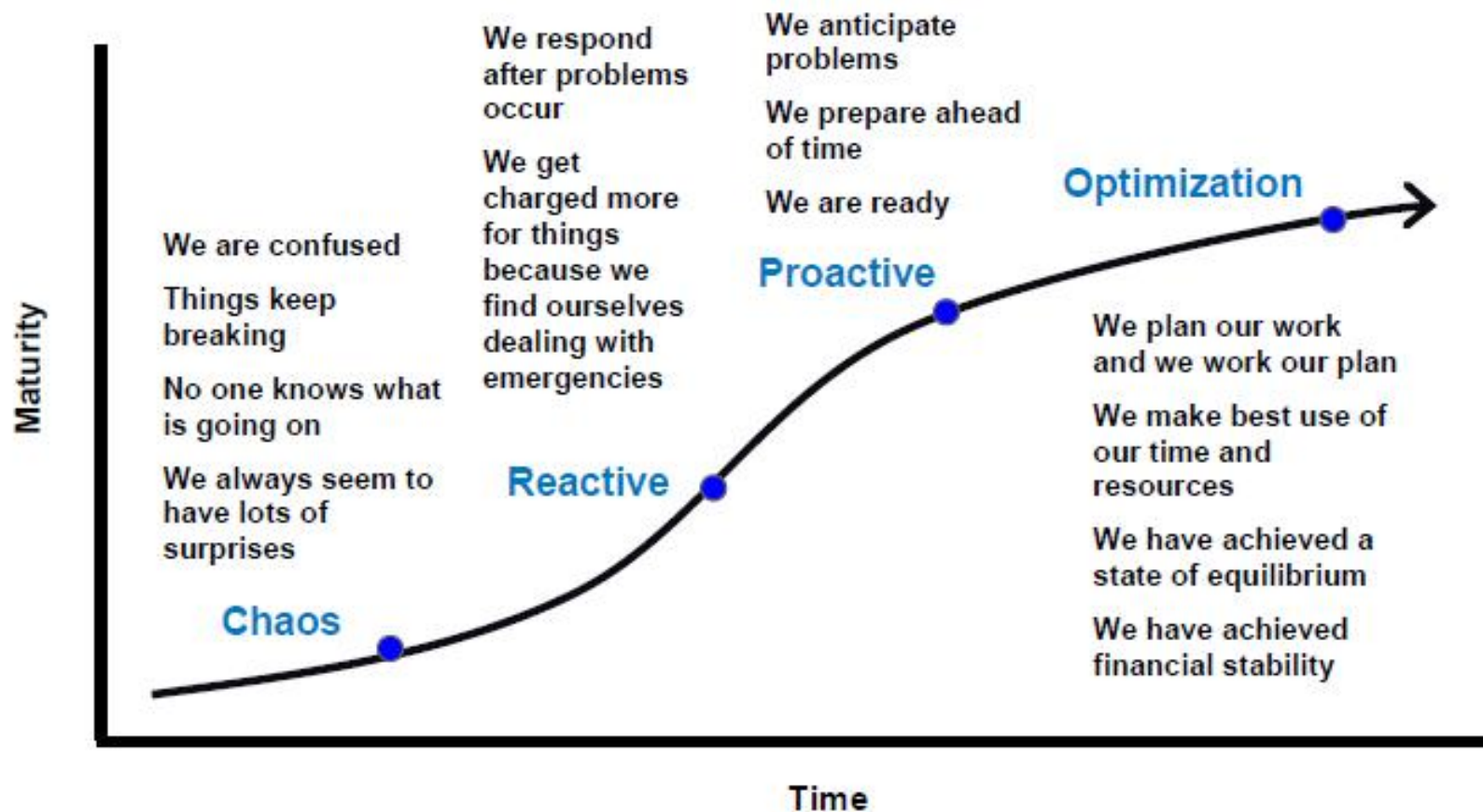


What is a Reserve Fund Study

A Reserve Fund Study is a financial planning tool used to plan the long-term budget for capital replacement items within a condominium complex.



Effective Reserve Fund Planning



Purpose of a Reserve Fund Study

➤ **OUTLINE A PLAN TO COMPLETE CAPITAL REPAIRS.**

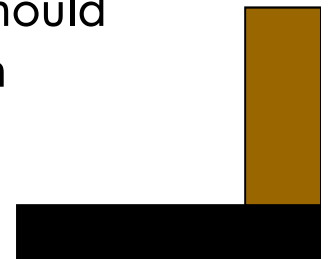
The Reserve Fund Study outlines a detailed plan to carry out major repairs and replacement of common property, ensuring that the necessary monies are in place.

➤ **SCHEDULE REPAIRS ON A TIMELY BASIS.**

Timely repairs to the common elements ensures that the property is adequately maintained. Common property in inadequate condition could adversely affect the market value of the property.

➤ **ENSURE THAT THE CONTRIBUTIONS TO THE FUND ARE SPREAD OUT OVER TIME.**

Every owner has had the benefit of living in the complex and should be required to share in the repairs and replacement of common property.



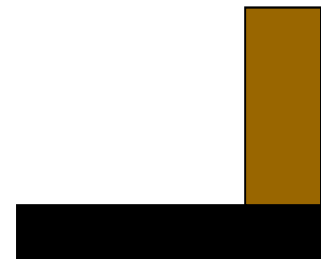
What Comprises a Reserve Fund Study?

Physical Elements

- Determine the Reserve Fund Component inventory
- Observed Condition assets and estimated remaining life

Financial Elements

- Current replacement cost of the assets
- Current Reserve Fund Balances
- Inflation rate, interest rate
- Annual allocation to the reserve fund



Physical Elements Determining Reserve Fund Components

Do you know which components are to be included/excluded?




Determining Reserve Fund Components

RESERVE FUND COMPONENTS – DEFINITION

Reserve components are defined in The Condominium Property Regulations as individual items that are the responsibility of the corporation, for which major repair or replacement cost are anticipated to be incurred during its useful life and for which costs are not covered under general maintenance.

Reserve components or common property elements are identified by reviewing the condominium legal documents:

- The Condominium Property Act, and The Condominium Property Regulations,
 - Registered Condominium Plan
 - Corporation Bylaws.
- 

Condominium Bylaws

Bylaws are used to provide clarification to items specific to your corporation

Wording in bylaws should accurately reflect Management Policies

Example – Decks

An owner shall:

- Be responsible for the cost of all painting, maintain, repairing, replacing and alteration of a deck, patio or gazebo that is appurtenant to the Unit owned by the owner and is available to that owner primarily for the enjoyment of that owner and invitees of that owner;

Example – Exterior Surfaces

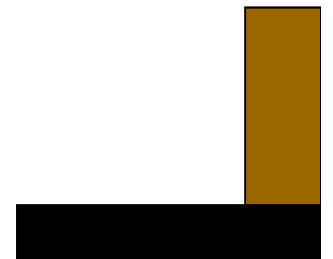
Duties of the Corporation

- Maintain and repair the exterior or outside surfaces of the buildings forming part of the units (excluding windows and doors, but including all outside accoutrements affecting the appearance, usability, value and safety of the Parcel of the units) and including any lawn, trees and fencing located on any part of the common property, managed property, parcel or units; and

Physical Elements Component Observed Condition & Remaining Life

ESTIMATE THE REMAINING USEFUL LIFE

Depreciation tables and normal life span experience records are combined with personal experience and observation, reference to cost guides and discussions with contractors to formulate the most likely scenario for component replacement.



Financial Elements

ESTIMATE THE CURRENT REPLACEMENT COST

The replacement cost estimate includes installation, removal of the worn-out item and any applicable taxes. Estimated are obtained mainly through quotes from local contractors.

ESTIMATE INFLATION RATE


The compounded inflation rate is applied to determine the appropriate future replacement costs. Local labour and construction material costs escalated significantly between 2007 and 2008. Costs then dropped slightly in 2009 and costs have been increasing at a more stabilized rate over the past few years. A stabilized rate is used in the studies.

ESTIMATE LONG TERM INTEREST RATE

A compounded long term interest rate is applied to the funds held in the reserve account. Interest rates have been held at historical lows over the last few years. These rates are expected to begin to increase, again a stabilized rate is used in the studies.

CALCULATE CONTRIBUTIONS

Finally, the annual contributions required to meet all future reserve expenditures are calculated.



How Do You Interpret The Study? Sample Report

- Sample Report – Schedule A and Schedule B
- Definitions

Current Reserve Fund Requirement – Reserve funds required today, considering the estimated effective age of the components or improvements.

Annual Reserve Fund Assessment – Annual amount required to be paid into the reserve fund and to be invested at the projected interest rate to fund the future reserve expenditures.

Annual Reserve Fund Makeup Contribution – Annual makeup required to fund the shortfall of the reserve requirement.



Why is it Important to Update Your Reserve Fund Study?

A RESERVE FUND STUDY IS SUBJECT TO CONSTANTLY CHANGING CIRCUMSTANCES AND SHOULD BE REVIEWED ON AN ANNUAL BASIS AND UPDATED EVERY FIVE YEARS.

CIRCUMSTANCES THAT INFLUENCE THE ACCURACY OF A RESERVE FUND STUDY INCLUDE;

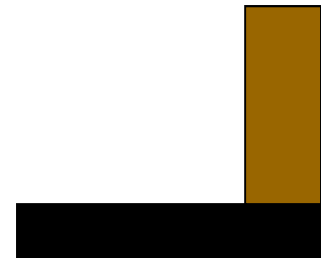
- Changes in construction labour and material costs.
- Changes in investment and interest rates.
- The acceleration or deceleration of the life expectancy of a specific item.

UPDATING RESERVE FUND STUDIES ON A REGULAR BASIS WILL ELIMINATE ANY SHORTFALL OR OVERPAYMENT INTO THE RESERVE ACCOUNT AS A RESULT OF THESE CHANGING CIRCUMSTANCES.

IMPORTANCE OF RESERVE FUND STUDIES



Condo Conversion – “New Boiler”



IMPORTANCE OF RESERVE FUND STUDIES



Rotting Deck Beams

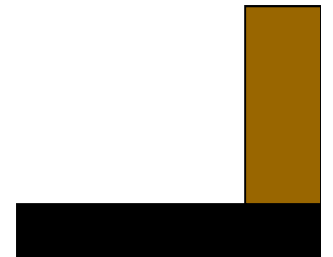


PHOTO LIBRARY - IMPORTANCE OF RESERVE FUND STUDIES



Skylights Leaking

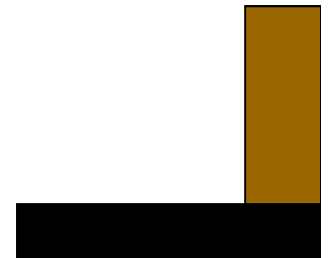
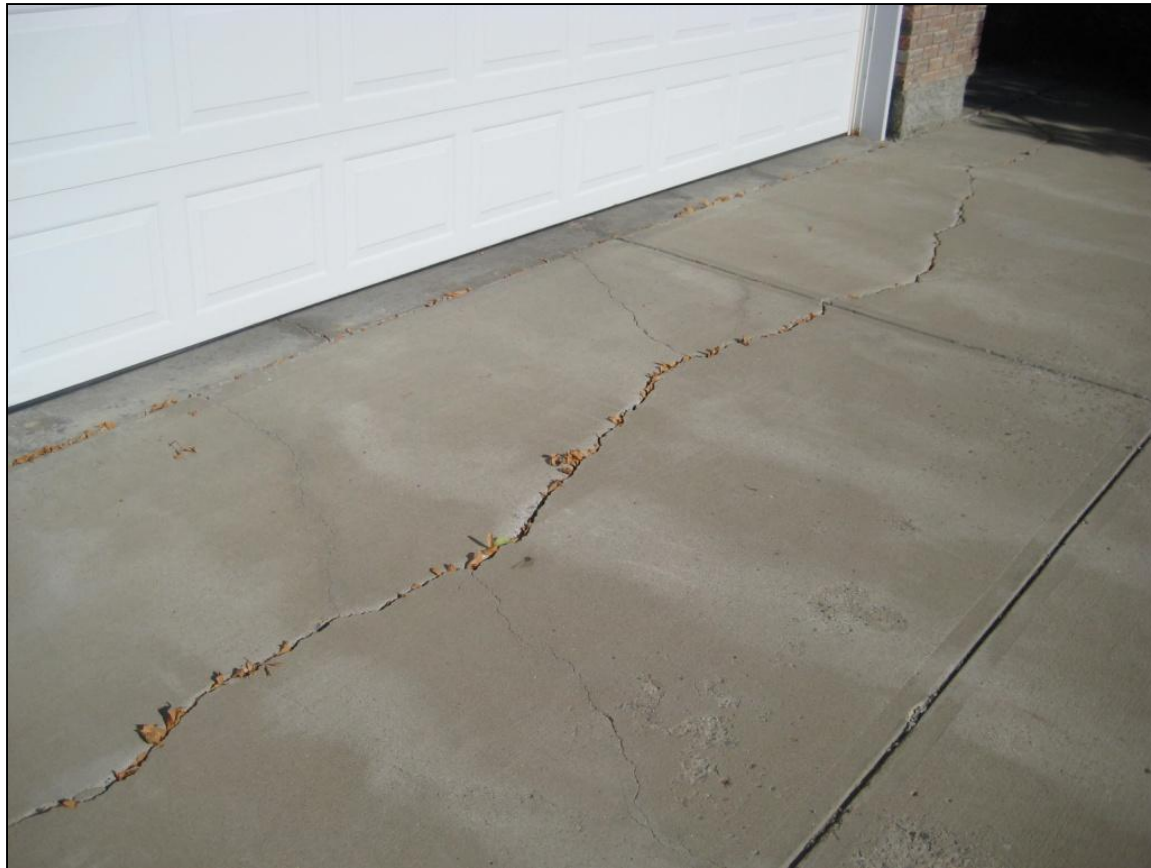
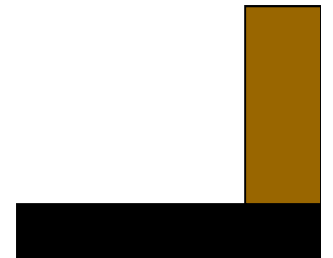


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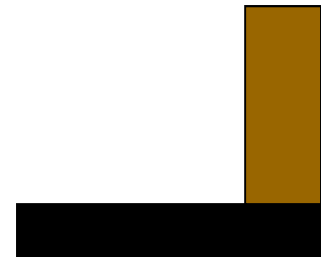
Concrete Cracks/Heaving - 10 year old Complex



IMPORTANCE OF RESERVE FUND STUDIES



Asphalt Parking – Importance of Maintenance



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