

# Who Can Provide Reserve Fund Studies?

## ■ BY TIM BEATTIE, P.ENG.

BY NOW, just about everyone involved with condominiums has heard of the new *Condominium Act*. Even those remotely involved with the industry have likely been to a seminar or read articles about how it is going to change their life when it becomes the document that governs the way we deal with condominiums.

Although much could be said regarding the tremendous effort that went into revising the previous Act, it can be summarized that the result generally codifies procedures adapted by more insightful participants in the industry, based on their experiences working with the old Act.

### Further Outside Interference

Not all owners may be pleased with what might be perceived as change or as further outside interference. However, just as seat belt legislation had to be introduced for the safety of the non-believers, this new Act should improve everything from day-to-day living and planning to the purchase and re-sale of condominium residences.

Just like seat belts, we are sure that the new Act will be incorporated into the everyday routines of those involved with condominiums.

**Reserve Fund Planning.** Both Acts require reserve funds to be established to facilitate major repair and/or replacement of the condominium's common elements. One very important aspect of the new Act is its clarification of issues related to planning associated with reserve funds.

The old Act was vague about the establishment of reserve fund contributions. While there were some guidelines, the minimum requirement (10%

of the operating budget) was often interpreted as being sufficient. While this level of contribution may sometimes be enough with proper planning and tight financial restraint, all too often corporations ended up blindly relying on this requirement as the golden rule. Unfortunately, most such corporations have ended-up having to face reality in a very unsettling way.

The new Act clarifies requirements related to the plans corporations must establish for contribution levels that will accommodate anticipated reserve fund expenditures.

**Reserve Fund Studies.** Specifically, the new Act requires corporations to implement a plan based on periodic reserve fund studies (or updates).

The purpose of the study is to determine whether the amount of money in the reserve fund, and the amount of contributions collected by the corporation, are adequate to provide for the expected repair and replacement of the common elements and assets of the corporation. This concept may have condominium owners fearful of hefty fee increases, with no perceived benefit, and resentful of their board being forced into this kind of predicament.

### A Long-Range Budget

Essentially, a reserve fund study is nothing more than a long-range budget. It should serve as a sensible instrument specific to maintenance planning for the condominium for which it is prepared, based on well-documented examinations of actual building conditions. The study should be more than an empirical exercise based on general conditions, normal life expectancies and common cost-

estimating parameters, forming not much more than a collection of financial tables.

A well-prepared reserve fund study is essential to the efficient planning and financial stability of every condominium. In our experience, this requires the following:

- Quantifying and categorizing common element components.
- Establishing repair histories and existing conditions.
- Discussing maintenance and budgeting viewpoints with management and directors.
- Reviewing performance expectations and wish lists.
- Making specific recommendations and estimating related repair or replacement costs.
- Preparing a preliminary contribution schedule for discussion concerning overall financial and operational objectives.
- Finalization of the plan.

### Based on Realistic Financial Analysis

Reserve fund contribution requirements should be established based on realistic financial analysis after careful deliberations with board and management to make sure not only technical but financial, operational and sometimes political considerations are taken into account. Although there are provisions in the new Act for the reserve fund plan to differ from the reserve fund study, we believe it is paramount for all parties to work diligently toward providing a study that is the plan.

**Presentation.** Although not specifically required by the Act, the study should include detailed descriptions of the conditions encountered and reasons for budget recommendations. This can sometimes result in rather lengthy reports, but is of great benefit to interested condominium owners, future boards or in the preparation of the reserve fund updates required periodically by the new Act. A better understanding of potential building system concerns can result in proactive measures and preventative maintenance that can avoid a crisis-saving requirement – the dreaded special assessment.

The Act also requires disclosure of

summary information related to the reserve fund in the status (formerly estoppel) certificates. Studies should include suitable summary presentations.

It is also important to keep the unit owners informed of the status of the reserve fund and reasons for any significant related change. The reserve fund provider should be equipped to assist the board and management to summarize the effort and thought put into preparing a plan. The summary report should be straightforward enough for anyone, not involved with all the preparations, to follow at a general meeting.

**Reserve Fund Study Updates.** Just as individual financial plans change with time and circumstance, the new Act recognizes this and requires that reserve fund plans include regular updates to the reserve fund study.

Enough effort should go into the presentation of each reserve fund study to facilitate updates without having to duplicate much of the expense of the original study.

**Reserve Fund Providers.** The new Act stipulates the person preparing the reserve fund study must have no affiliation with the board or corporation for which the study is being carried out.

There has been much speculation about the qualifications required of the reserve fund provider. It appears the regulations associated with the new Act are contemplating the follow-

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*“... keep the unit owners informed of the reserve fund status...”*

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ing credentials:

- Members of the Appraisal Institute of Canada, holding the designation of Accredited Appraiser;
- Persons who hold a certificate of practice within the meaning of the *Architects Act*;
- Members of the Ontario Association of Certified Engineering Technicians and Technologists who are registered as certified engineering technologists under the *Ontario Association of Certified Engineering Technicians and Technologists Act, 1998*;
- Members of the Real Estate Institute of Canada, holding the designation of Certified Reserve Planner;
- Persons who hold a certificate of authorization within the meaning of the *Professional Engineers Act*;
- Graduates of Ryerson Polytechnic University, with a Bachelor of Technology (Architectural Science) – Building Science Option or Architecture Option;
- Members of the Canadian Institute of Quantity Surveyors, holding the designation of Professional Quantity Surveyor;
- Members of the Association of Architectural Technologists of Ontario

holding a designation under the *Association of Architectural Technologists of Ontario Act, 1996*.

### **Realistic Budget Recommendations**

The reserve fund provider should be experienced in the repair and maintenance of the type of building under investigation to ensure realistic budget recommendations. The approach should include the flexibility and insight necessary to assist in the preparation of a plan that can be relied upon when making future maintenance-related decisions, not simply a study that is referenced for present contribution requirements and then dismissed.

Dramatic turn-arounds can be achieved, particularly in some of the older condominiums (usually the biggest sceptics). There will be a satisfaction that, with some effort, the presentation and implementation of a sensible, flexible reserve fund plan can significantly benefit condominium owners and their realization that this process is not something that need be feared or avoided.

The new Act's requirements for reserve funds should facilitate more insightful routine condominium repair and maintenance decisions. □

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