

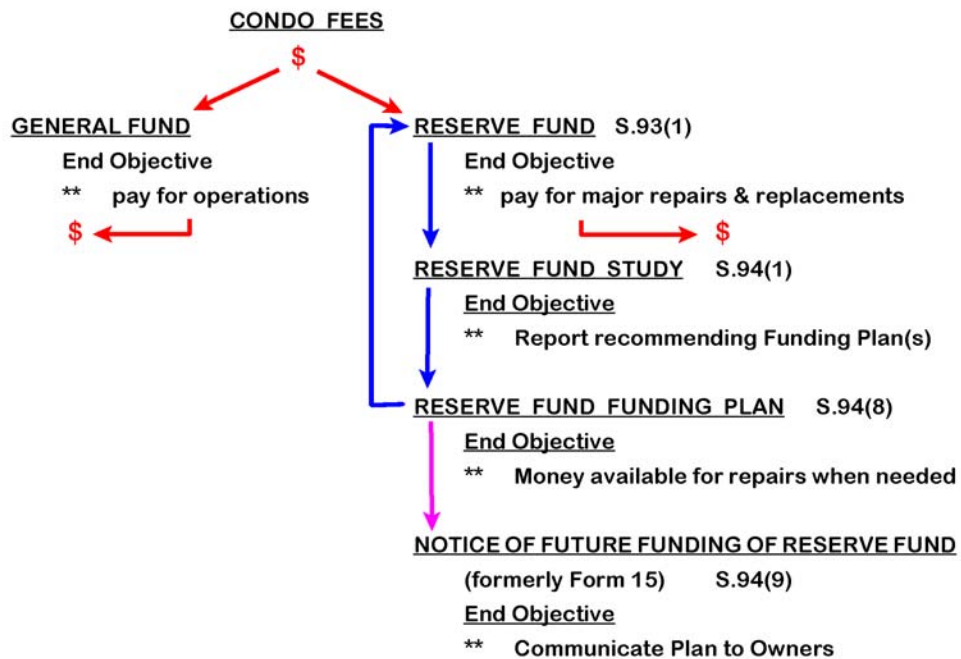
RESERVE FUND STUDIES & PLANS

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RESERVE FUND STUDIES & PLANS

- 1. FRAMEWORK SET UP BY THE ACT**
- 2. WHAT DOES THE ENGINEER / PLANNER DO ?**
- 3. WHAT IS IN A RESERVE FUND STUDY REPORT ?**
- 4. WHERE THE RESERVE FUND PLAN CAN GO OFF THE RAILS**
- 5. SUMMARY**
- 6. QUESTIONS**



RESERVE FUND STUDY

Independent, Professional Study
Examines Legal, Financial, & Physical Situation

End Objective

** recommend a Funding Plan

The Report IS

- a Money document
- information, advice, and recommendation
- a guide to management of the Reserve Fund
- updated every three years

The Report IS NOT

- an engineering document
- a prescription
- a repair blueprint

RESERVE FUND FUNDING PLAN

is a Board Document

Does not have to follow the Recommended Plan

End Objective

** Money available for repairs when needed

Must be:

- **Comprehensive**
 - include all reasonably foreseeable expenses

- **Balanced** (adequate)
 - balance the obligations of present & future owners

- **Sustainable**
 - have a long-term focus - minimum 30 years

Condominium Act Regulation 48/01

Part IV, Section 27 (a)

“Component inventory” means an inventory, in a reserve fund study of a corporation, of each item of the common elements and the assets of the corporation that requires, or is expected to require within at least 30 years of the date of the study, major repair or replacement where the cost of replacement is not less than \$500;

NOTICE OF FUTURE FUNDING OF THE RESERVE FUND

Form prescribed by the Act & Regulations
Vehicle by which the Board communicates their chosen Plan

End Objective

** Communicate the Proposed Plan to Owners

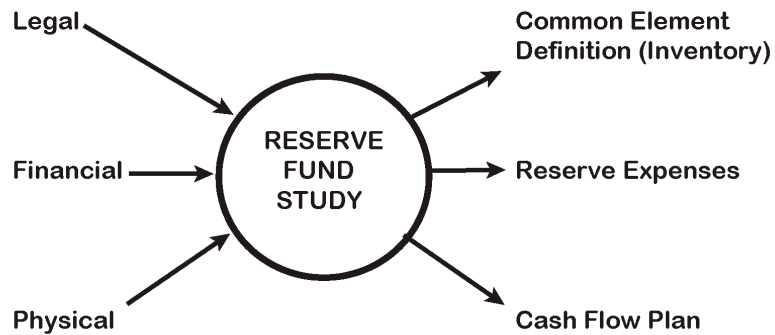
Potentially, 3 parts:

1. Summary of the Funding Plan Recommended in the Study
 - If adopted by the Board, only part 1 is needed.
 - If not adopted, then parts 2 & 3 are also needed:
2. Summary of Board Proposed Funding Plan (if different)
3. Explains how the Proposed Plan differs from the Study

CONSEQUENCES OF UNDER-FUNDED PLAN

- Improper or delayed repairs & replacements
- Special assessments, when repairs cannot be delayed
 - “funding by Special Assessment”
- Harder to attract new owners
- Resale Value of units goes down

WHAT DOES THE ENGINEER / PLANNER DO ?



WHAT DOES THE ENGINEER / PLANNER DO ?

CASH FLOW PLAN

CONSTRAINTS ON FUTURE FUNDING DECISIONS

- Reserve Fund Balance must never go negative
- Long-term increases in contributions
= Inflation Rate assumed in the Study
(balances obligations of present & future owners)
- Top-Up of Reserve Fund completed according to
the Condominium Act Regulations
(Act, s.94 (8), & Regulations 48/01, s.33)
- Investment Income is calculated

WHAT IS IN A RESERVE FUND STUDY REPORT ?

The Report contains:

- Summary of Data Analysis -
Legal, Financial, Physical
- Inventory / Table of Common Elements
- Commentary on Condition of Common Elements
(Class 1 & 2 Studies)
- 30-year Projection of Costs & Cash Flow
- “As Is” Evaluation
- Recommended Plan

INSURANCE APPRAISALS

Added Service

If the firm which performs your Reserve Fund Study

is also a Real Estate Appraiser,

the Reserve Fund Study & Insurance Appraisal

can be combined with savings of

time and effort, and money.

Otto & Company is a firm of Real Estate Appraisers.

WHERE THE RESERVE FUND PLAN CAN GO OFF THE RAILS - 1

RESERVE FUND STUDY ACCURACY

Responsibility of Engineer / Planner

1. Ignore or misinterpret Declaration & other documents
2. Fail to include all reasonably foreseeable costs
3. Underestimate costs
4. Overestimate remaining life
5. Underestimate Inflation
6. Overestimate Interest Income
7. Fail to include HST

** We can evaluate different scenarios, and **
** stress-test for changes in Inflation, HST, etc. **

WHERE THE RESERVE FUND PLAN CAN GO OFF THE RAILS - 2

RESERVE FUND PLAN MANAGEMENT

Responsibility of Board & Property Manager

8. Fail to accept the fallibility of forecasts - all forecasts
9. Fail to accept the messiness of the management process
10. Minimum Closing Balance too low
11. No specific annual Reserve Budget
12. Focus on Contributions - not Balances
13. Board & Owner resistance to higher contributions / fees
 - “I won’t be here then!”
 - “we can’t put in that big an increase”
 - “our owners are on fixed incomes”
 - “our fees will be uncompetitive”

WHAT CAN YOU DO ?

- Study the Reserve Fund Study critically:
 - If you don't understand, ask "why?" until you do
 - Ask a contractor for a budget quote
- Set a reasonable Minimum Closing Balance
- Prepare a specific Reserve Budget - every year:
 - Do not be afraid to change the Plan
 - You may need to issue an Updated Notice of Funding
- Focus on Reserve Fund Balances - not Contributions
- Keep a year-by-year detailed Reserve Expense History
- Remember - the Value of your Unit is at stake

SUMMARY

Reserve Fund Plan is a Money document

Reserve Fund Plan is a Board document

End Objective

Have funds available when needed

Not too much Not too little

Consequences of Under-Funding
are worse than
Consequences of Over-Funding

Healthy Reserve Fund & Plan are essential to preserve Property Values

Action delayed only gets more difficult & meets greater resistance