



Depreciation Reports

aka Reserve Fund Studies (?)

- What is involved?
- How much will it cost?
- Who is qualified?
- Why is it so important?
- What does the Strata Property Act say about it?

Presented to

VISOA

Vancouver Island Strata Owners Association

by

Alex McGowan, P.Eng.
Levelton Consultants Ltd.

20 November, 2011



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What does the Act say?

Strata Property Act, SBC 1998 (Chapter 43)

Operating fund and contingency reserve fund

92 To meet its expenses the strata corporation must establish, and the owners must contribute, by means of strata fees, to

- (a) an operating fund for common expenses that usually occur either once a year or more often than once a year, and
- (b) a contingency reserve fund for common expenses that usually occur less often than once a year or that do not usually occur.



What does the Act say?

Strata Property Act, SBC 1998 (Chapter 43)

Minimum and maximum contributions to contingency reserve fund

93 Subject to the requirements **set out in the regulations**, the strata corporation must determine the amount of the annual contribution to the contingency reserve fund.

Depreciation report

94 (1) The strata corporation may prepare a depreciation report estimating the repair and replacement cost for major items in the strata corporation and the expected life of those items to assist it in determining the appropriate amount for the annual contribution to the contingency reserve fund.

(2) A depreciation report may contain information based on the guidelines for depreciation reports **as set out in the regulations** and may be in the prescribed form.



What does the Act say?

Strata Property Regulation, BC Reg. 43/2000

Contributions to contingency reserve fund

6.1 For the purposes of section 93 of the Act, the amount of the annual contribution to the contingency reserve fund ... must be determined as follows:

- (a) if the amount of money in the contingency reserve fund at the end of any fiscal year after the first annual general meeting is less than 25% of the total annual budgeted contribution to the operating fund for the fiscal year that has just ended, the annual contribution to the contingency reserve fund must be at least 10% of the total contribution to the operating fund for the current fiscal year;
- (b) if the amount of money in the contingency reserve fund at the end of any fiscal year after the first annual general meeting is equal to or greater than 100% of the total annual budgeted contribution to the operating fund for the fiscal year that has just ended, any contribution to the contingency reserve fund must be approved by a resolution passed by a 3/4 vote at an annual or special general meeting;
- (c) if the amount of money in the contingency reserve fund at the end of any fiscal year after the first annual general meeting is at least 25% but less than 100% of the total annual budgeted contribution to the operating fund for the fiscal year that has just ended, the annual contribution to the contingency reserve fund may be of any amount.



What does the Act say?

Strata Property Regulation, BC Reg. 43/2000

Clause 6.1, decoded

IF CRF < 25% of Operating Fund contribution

THEN CRF contribution is at least 10% of Operating Fund contribution

IF CRF > 100% of Operating Fund contribution

THEN any CRF contribution must be approved by $\frac{3}{4}$ vote

OTHERWISE

CRF contribution can be any amount



What does the Act say?

Strata Property Act, SBC 1998 (Chapter 43)

Minimum and maximum contributions to contingency reserve fund

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Depreciation report

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(2) A depreciation report may contain information based on the guidelines for depreciation reports **as set out in the regulations** and may be in the prescribed form.



What does the Act say?

Strata Property Amendment Act, Bill 8

15 Section 94 is repealed and the following substituted:

Depreciation report

94 (1) In this section, "**qualified person**" has the meaning prescribed **in the regulations**.

(2) Subject to subsection (3), a strata corporation must obtain from a qualified person, on or before the following dates, a depreciation report estimating the repair and replacement cost for major items in the strata corporation and the expected life of those items:

(a) for the first time, the date that is 2 years after the coming into force of this section;

(b) if the strata corporation has, before or after the coming into force of this section, obtained a depreciation report that complies with the requirements of this section, the date that is the prescribed period after the date on which that report was obtained;

(c) if the strata corporation has, under subsection (3) (a), waived the requirement under this subsection to obtain a depreciation report, the date that is the prescribed period after the date on which the resolution waiving the requirement was passed.

(3) A strata corporation need not comply with the requirement under subsection (2) to obtain a depreciation report on or before a certain date if

(a) the strata corporation, by a resolution passed by a 3/4 vote at an annual or special general meeting within the prescribed period, waives that requirement, or

(b) the strata corporation is a member of a prescribed class of strata corporations.

(4) A depreciation report referred to in subsection (2) must contain the information set out **in the regulations**.



What does the Act say?

Strata Property Regulation, BC Reg. 43/2000

Guidelines for depreciation report

6.2 (1) For the purposes of section 94 of the Act, a depreciation report prepared to assist a strata corporation in determining the appropriate amount for the annual contribution to the contingency reserve fund may estimate the repair or replacement cost for, and the expected life of, each of the items set out below, *if applicable to the strata corporation*, **and any other items that the strata corporation considers should be included:**

- (a) the electrical system;
- (b) the heating system;
- (c) the plumbing system;
- (d) the elevators;
- (e) the exterior walls;
- (f) the roof;
- (g) carpeting and furnishings;
- (h) interior and exterior painting;
- (i) parking facilities and roadways;
- (j) recreational facilities



Depreciation Report

Item	Replacement cost (\$,000)	Replaced in
(a) the electrical system;	14	2023
(b) the heating system;	22	2016
(c) the plumbing system;	16	2050
(d) the elevators;	225	2014
(e) the exterior walls;	600	2020
(f) the roof;	45	2023
(g) carpeting and furnishings;	55	2014
(h) interior and exterior painting;	7	2014
(i) parking facilities and roadways;	32	2030
(j) recreational facilities	20	2017



What does the Act say?

Strata Property Act, SBC 1998 (Chapter 43)

Management of contingency reserve fund

95 (1) The strata corporation must account for money in the contingency reserve fund separately from other money of the strata corporation.

(2) The strata corporation must invest all of the money in the contingency reserve fund in one or the other or a combination of the following:

(a) those investments permitted by the regulations;

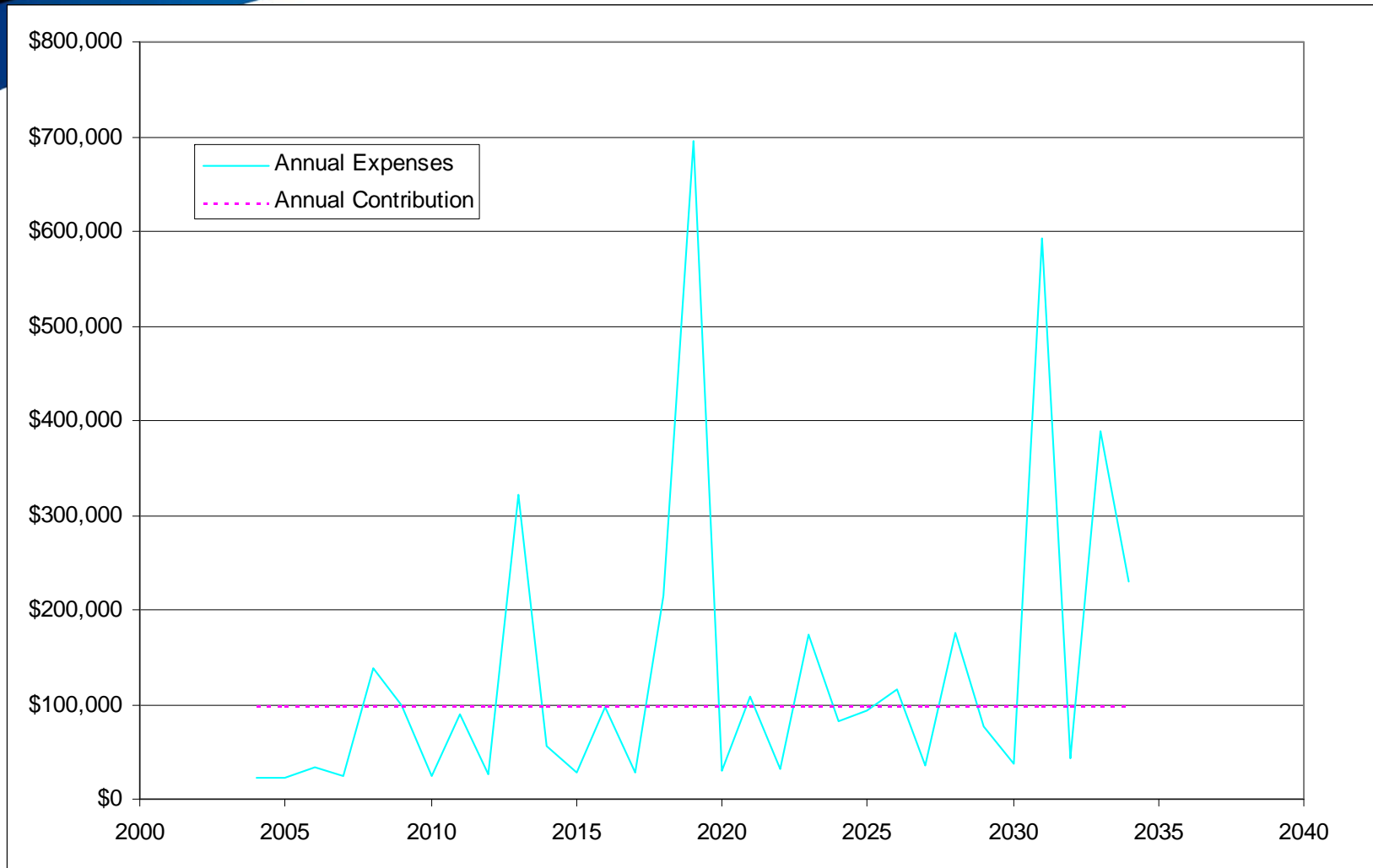
(b) insured accounts with savings institutions in British Columbia.

(3) Any interest or income earned on the money in the contingency reserve fund becomes part of the fund.

(4) Despite subsection (2), the strata corporation may lend money in the contingency reserve fund to the operating fund as permitted by the regulations.

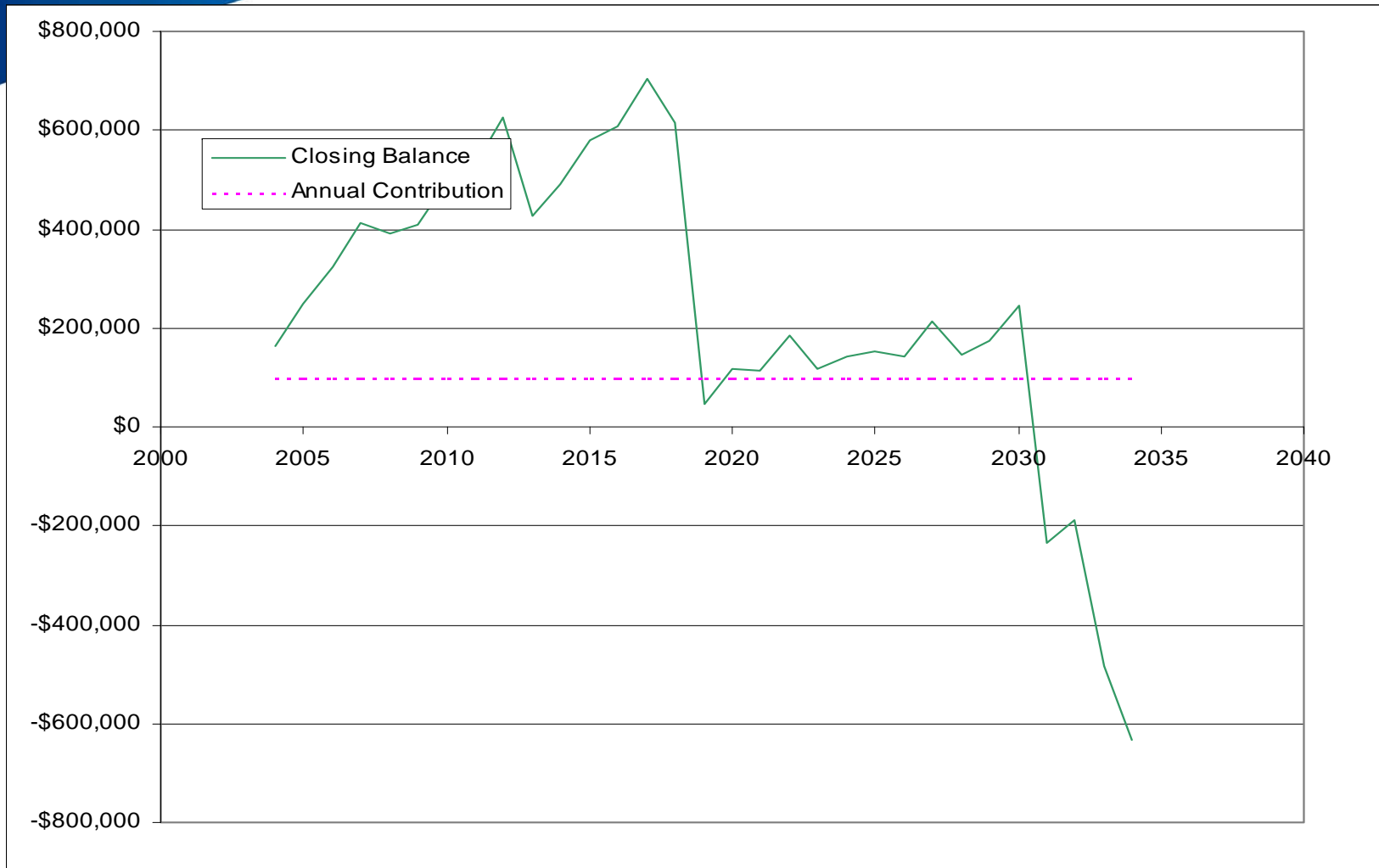


Reserve-Fund Study





Reserve-Fund Study





Reserve-Fund Study

Elements in the Reserve Fund

- (a) the electrical system;**
- (b) the heating system;**
- (c) the plumbing system;**
- (d) the elevators;
- (e) the exterior walls;
- (f) the roof;
- (g) carpeting and furnishings;
- (h) interior and exterior painting;
- (i) parking facilities and roadways;
- (j) recreational facilities

Electrical (by Electrical Engineering Consultant)

Lighting (e.g., exterior street lamp, interior fluorescent)
Intercom System
Electric Heating
Electrical Panels
Electrical Splitters
Electrical Switches
Transformers
Fire Alarm System
Emergency System

Mechanical (by Mechanical Engineering Consultant)

Fans
Ventilation (e.g., make-up air unit)
Boilers (e.g., domestic hot water, heating)
Pumps (e.g., booster, sump, fire)
Tanks (e.g., expansion, storage)
Fire Protection (e.g., sprinklers, extinguishers)



Reserve-Fund Study

Elements in the Reserve Fund

- (a) the electrical system;
- (b) the heating system;
- (c) the plumbing system;
- (d) the elevators;**
- (e) the exterior walls;
- (f) the roof;
- (g) carpeting and furnishings;
- (h) interior and exterior painting;
- (i) parking facilities and roadways;**
- (j) recreational facilities**

Elevators (by Elevator Company)

Infrastructure (by specialists)

Continuous Concrete (e.g., curbs, concrete paving)

Asphalt Paving (e.g., driveways, asphalt roads)

Unit Concrete (parking aprons, townhouse garage aprons, precast steps)

Strata-owned services (storm and sanitary sewer, water supply), where appropriate



Reserve-Fund Study

Elements in the Reserve Fund

- (a) the electrical system;
- (b) the heating system;
- (c) the plumbing system;
- (d) the elevators;
- (e) the exterior walls;**
- (f) the roof;**
- (g) carpeting and furnishings;**
- (h) interior and exterior painting;**
- (i) parking facilities and roadways;
- (j) recreational facilities

Architectural

- Roofing
- Flashing
- Eavestroughs and Downpipes
- Grilles and Vents
- Exterior Walls
- Balconies
- Exterior stairs and landings
- Doors (e.g., interior, front entrance)
- Windows (fixed and operable)
- Caulking and Sealants
- Painting (interior common areas and exterior)
- Interior Wall Finishes (e.g., mirrors, wallpaper) - common areas only
- Interior Flooring (e.g., carpet, ceramic tile, vinyl asbestos tile) - common areas only
- Interior Ceilings (e.g., suspended fibre) - common areas only
- Parking Garages and Foundations



Reserve-Fund Study

Developing the Reserve Fund

Table 1B - Reserve-Fund Study items to be addressed in future years

Note: Replacement Costs and Annual Contributions shown in Current-Year dollars, assuming annual inflation rate of **2.00%** and return on invested funds of **4.00%**

Item No.	Description	Replacement Cost per Unit	Unit	Estimated Units	Expected Life	Present Age	Est. Life Remaining ^c	Replacement Cost (total)	Annual Contribution
2.2.1	Roofing - Flat -West end	\$200.00	m ²	4	12 - 15	6	7	\$918.95	\$116.35
2.2.2	Roofing - Flat - Central area	\$97.00	m ²	23	20	9	9	\$2,666.25	\$251.94
2.3	Replace existing sloped roof	(see options)		0	10	20	1	(see options)	(see options)
...

- NOTES:
- ^a "Estimated Life Remaining" may not necessarily equal the difference between "Expected Life" and "Present Age", depending on condition assessment
 - ^b indicates item for which recurring maintenance will be required (Description indicates the expected period of maintenance)
 - ^c indicates an item for which further investigation is recommended to determine nature of repair or scope of affected area
 - ^d condition assessment/cost estimates not done by Levelton - provided for information only to complete reserve-fund study

Table 2 - Reserve-Fund Expenses

Note: all expenses are in Current-Year dollars, assuming a Base Year of **2000** and an annual inflation rate of **2.00%**

Item No.	Description	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	...
2.2.1	Roofing - Flat -West end							919									...
2.2.2	Roofing - Flat - Central area									2,235							...
2.3	Roofing - Sloped	(see options)															...
Option a	- replace with cedar shingles	8,640				29,810	30,406	31,015									...
Option b	- replace with asphalt shingles	6,880				23,738	24,212	24,697									...
...

- NOTES:
- ^a indicates item for which recurring maintenance will be required (Description indicates the expected period of maintenance)
 - ^b indicates an item for which further investigation is recommended to determine nature of repair or scope of affected area
 - ^c condition assessment and cost estimates not done by Levelton - provided for information only to complete Reserve Fund Study



Reserve-Fund Study

Developing the Reserve Fund

Table 3 Annual Contributions and Reserve-Fund Cash Flow

Annual Inflation	2.00%	Interest rate	4.00%	Base Year	2000
Year	Opening Balance	Annual Contribution	Expenses	Interest	Closing Balance
2001	\$47,000	\$65,000	\$106,244	\$1,880	\$7,636
2002	\$7,636	\$41,870	\$5,721	\$305	\$44,091
2003	\$44,091	\$39,066	\$15,334	\$1,764	\$69,586
2004	\$69,586	\$38,505	\$16,345	\$2,783	\$94,530
2005	\$94,530	\$31,070	\$37,870	\$3,781	\$91,511
...



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Why Is It Important ?

Depends who you ask...

- From the Owners' perspective

- Strata Act requirement
- Strata not expert in determining costs or expected service life of RFS items
- Preventing “leaky condos” is MUCH less expensive than fixing them
- RFS provides the Strata with a long-term planning tool to help maintain value
- Preserves property values directly and indirectly
- Fewer expensive special assessments
- Analogy to a financial planner



Why Is It Important ?

Depends who you ask...

- From the Owners' perspective

Without it, the Strata is in reactive emergency mode. Few opportunities can be realized from the continuous investment made into the property. RFS presents the following opportunities:

- Take advantage of market conditions with careful planning of renewal activities
- Opportunity to exceed life expectancy of components with continuous unbiased evaluation
- Planning of long-term investment strategies (term investments) to realize maximum return
- Planned special assessments can be anticipated to minimize financial hardship
- Helps to ensure adherence to the activities prescribed in the maintenance manual
- Provides proof of the Strata's intent to mitigate, and shows compliance with Strata Property Act
- Strata can make informed decisions as components come up for repair or renewal



Why Is It Important ?

Depends who you ask...

- From the Consultants'
perspective

- fixing leaky condos is a sunset industry
- “Condos” is a larger market than “Leaky Condos”
- Long-term, stable relationships with Clients
- Opportunities for repeat business
- Easier to plan our workloads / resources
- Competitive edge when renewals required
- Tired of being the bearer of bad news at Strata meetings !



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Who is Qualified ?

Condominium Property Act, Alberta

**Condominium Property Regulation
Alberta Regulation 168/2000**

Part 2 Capital Replacement Reserve Fund

Definitions

21(1) In this Part,

- (c) “qualified person” means, in respect of the depreciating property, an individual who, based on reasonable and objective criteria, is knowledgeable with respect to
- (i) the depreciating property or that type of depreciating property,
 - (ii) the operation and maintenance of the depreciating property or that type of depreciating property, and
 - (iii) the costs of replacement of or repairs to, as the case may be, the depreciating property or that type of depreciating property;



Who is Qualified ?

Condominium Property Act, Alberta

Condominium Property Regulation
Alberta Regulation 168/2000

Part 2 Capital Replacement Reserve Fund

Definitions

(2) For the purposes of section 23, a reference to a qualified person includes a corporate entity if the corporate entity, in carrying out the functions of a qualified person, employs or otherwise retains the services of an individual who is a qualified person to carry out those functions.

Corporation as qualified person

22 Notwithstanding section 21(2), if a condominium plan consists of not more than 12 units, the corporation may, in respect of that condominium plan, carry out the functions of a qualified person if authorized to do so by a special resolution.



Who is Qualified ?

Condominium Property Act, Alberta

**Condominium Property Regulation
Alberta Regulation 168/2000**

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Who is Qualified ?

Condominium Property Act, Alberta

Condominium Property Regulation
Alberta Regulation 168/2000

Part 2 Capital Replacement Reserve Fund

Reserve fund study, report and plan

23(1) The board must retain a qualified person to carry out a study of the depreciating property for the purposes of determining the following:

- (a) an inventory of all of the depreciating property that, under the circumstances under which that property will be or is normally used, may need to be repaired or replaced within the next 25 years;
- (b) the present condition or state of repair of the depreciating property and an estimate as to when each component of the depreciating property will need to be repaired or replaced;
- (c) the estimated costs of repairs to or replacement of the depreciating property using as a basis for that estimate costs that are not less than the costs existing at the time that the reserve fund report is prepared;
- (d) the life expectancy of each component of the depreciating property once that property has been repaired or replaced.



Who is Qualified ?

Condominium Property Act, Alberta

Condominium Property Regulation
Alberta Regulation 168/2000

Part 2 Capital Replacement Reserve Fund

Reserve fund study, report and plan

(2) In carrying out the reserve fund study under subsection (1), the qualified person must also do the following:

- (a) determine the current amount of funds, if any, included in the corporation's reserve fund;
- (b) recommend the amount of funds, if any, that should be included in or added to the corporation's reserve fund in order to provide the necessary funds to establish and maintain or to maintain, as the case may be, a reserve fund for the purposes of section 38 of the Act;
- (c) describe the basis for determining
 - (i) the amount of the funds under clause (a), and
 - (ii) the amount in respect of which the recommendation was made under clause (b).



Who is Qualified ?

Condominium Property Act, Alberta

Condominium Property Regulation
Alberta Regulation 168/2000

Part 2 Capital Replacement Reserve Fund

Reserve fund study, report and plan

(3) On completing the reserve fund study under this section, the person who carried out the study must prepare and submit to the board a reserve fund report in writing in respect of the study setting out the following:

- (a) the qualifications of that person to carry out the reserve fund study and prepare the report;
- (b) whether or not the person is an employee or agent of or otherwise associated with the corporation or any person who performs management or maintenance services for the corporation;
- (c) the findings of the reserve fund study in respect of the matters referred to in subsections (1) and (2);
- (d) any other matters that the person considers relevant.



Who is Qualified ?

Condominium Act, 1998
Ontario Regulation 48/01, Part IV

Person conducting studies

32. (1) Subject to subsection (2), the following classes are prescribed as persons who may conduct a reserve fund study:

1. Members of the Appraisal Institute of Canada holding the designation of Accredited Appraiser Canadian Institute.
2. Persons who hold a certificate of practice within the meaning of the *Architects Act*.
3. 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*.
4. Members of the Real Estate Institute of Canada holding the designation of certified reserve planner.
5. Persons who hold a certificate of authorization within the meaning of the *Professional Engineers Act*.
6. Graduates of Ryerson Polytechnic University with a Bachelor of Technology (Architectural Science) â€™ Building Science Option or Architecture Option.
7. Members of the Canadian Institute of Quantity Surveyors holding the designation of professional quantity surveyor.
8. Members of the Association of Architectural Technologists of Ontario holding the designation of architectural technologist, architecte-technologue or registered building technologist under the *Association of Architectural Technologists of Ontario Act, 1996*. O. Reg. 48/01, s. 32 (1).



Who is Qualified ?

So ... who is qualified ?

- Requires specific technical knowledge, to assess current condition/expected life of components
- Requires previous experience with repair and remediation, to estimate repair and /replacement costs
- Understanding of warranty requirements, HPO regulations and other legislation, etc.
- Requires some knowledge of economics (life-cycle costing, etc.)
- Requires experience in dealing with Strata Councils, Property Managers, etc.
- May require professional liability insurance



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Depreciation Reports

Additional questions

1. What are the current Strata Property Act requirements for depreciation reports?
2. What are new requirements going to look like?
3. Who is qualified to carry out a depreciation study?
4. Who will be regulating the people who are going to be carrying out the studies?

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[Additional questions ?](#)

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Thank you for your interest !