

VISOA Webinar: Strata Treasurers - Operating Budgets

October 30, 2020



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Question	Answer
How and when do you report the schedule of fees? at the AGM?	In the notice package before the AGM. See slide 27: (\$103) The proposed budget must be distributed with the notice of the AGM... and slides 9 and 11 which explain what must be in the budget. Taken together, the schedule of fees must be included in the AGM notice package.
Thank you, is there flexibility between itemized expense categories? In other words, if there are savings, can they be diverted to another line? EG. if we had savings on insurance, can they be used for the excessive hydro bills?	1) If the categories of expenses are in the approved budget, then yes, there is some flexibility. For example, let's imagine that hydro expenses are 5% higher than was budgeted. You have to pay the hydro bill. You don't have to "take" that amount from one of the other budget lines. If the overall expenses start to get tight just try to economize in one or more types of expenses to try to prevent going into a deficit at the end of the year. 2) If a type of expense was not budgeted for at all, then you might be able to use section 98 of the Strata Property Act (Unapproved Expenditures) for authority. Read part 2 carefully and check your bylaws. Don't be afraid to get legal advice before employing this part of the Act. A council decision is required and should be in the minutes. Please note that this part of the Act is often misunderstood and must not be used willy-nilly.
If an high unexpected expense comes up must homeowners be advised? How must it be paid if this expense is not in the operating budget.	If the expense is not in the operating budget then see the answer above regarding section 98 of the Strata Property Act (Unapproved Expenditures). If the expenses qualifies as a true emergency under section 98(3) (<i>an immediate expenditure is necessary to ensure safety or prevent significant loss or damage, whether physical or otherwise</i>), the strata corporation must inform owners about the expenditure as soon as feasible.

Question	Answer
<p>Budget may not be ammended during the year. Believe you said even by a SGM. Did I hear correct?</p>	<p>That's correct. You would wait until the next AGM to pass a new budget. Depending on what you are needing money for, you could call an SGM to approve a special levy or pay something from the CRF. But it really depends what you need the money for.</p>
<p>We have two sections, a Condo building and a series of town houses with very different expense types. Should we do one budget for both or can they operate separately with separate budgets, meetings approvals?</p>	<p>I suggest you read section 194 of the Act. If you actually have legal sections (created by bylaws) your question suggests that the strata and sections are not following the Act. The strata and the sections may want to seek legal advice to get into compliance. A section is a corporation and has its own "council" (called an executive), its own budget, CRF, and may have its own bylaws and rules. The strata corporation retains its powers and duties in matters of common interest to all the owners, so the strata still has bylaws, a budget, CRF and so on. In simplest terms, a strata that has 2 sections has 3 "councils", 3 budgets and 3 CRFs. This also means an AGM for each section and an AGM for the entire strata. The budgets are passed at those AGMs. Once the budgets are passed by majority votes, a condo owner will have 2 strata fees: one to the strata corporation and one to the condo section; a townhouse owner will have 2 strata fees: one to the strata corporation and one to the townhouse section.</p>
<p>If our strata has a Unit Entitlement where all units are within 5 of each other, and our strata has never followed it, just split evenly between all units, should we try to have the Unit Entitlement changed and approved?</p>	<p>Section 99 requires the strata to calculate the fees based on what the unit entitlement is as filed at the Land Titles Office. If the owners want to calculate them a different way (such as the even split you have described), then read section 100 of the Act. <i>At an annual or special general meeting... the strata corporation may, by a resolution passed by a unanimous vote, agree to use one or more different formulas, other than the formulas set out in section 99 and the regulations, for the calculation of a strata lot's share of the contribution to the operating fund and contingency reserve fund.</i> However that resolution has no effect until it is filed in the Land Titles office, with a Certificate of Strata Corporation in the prescribed form stating that the resolution has been passed by a unanimous vote. In practice, unless yours is a very small strata, a unanimous vote may be difficult to achieve. A unanimous vote is a vote in favour of a resolution by every eligible voter in every strata lot registered in the strata plan (a single strata lot can have multiple owners), and may on occasion include a person or company which has a financial interest in a strata lot. Abstentions count as negative votes, so even one abstention can defeat such a resolution.</p>

Question	Answer
<p>Would you not consider the planning of CRF projects as an integral part of the budgeting process.</p>	<p>Yes, but the CRF budget is a separate budget. Certainly consider what projects are coming up (your depreciation report is a great planning tool). This may influence how much you think the CRF contribution should be in the Operating Budget.</p>
<p>Surplus and Deficit</p>	
<p>Can a deficit be approved by Resolution to be taken from CRF?</p>	<p>SPA 105(2) says that the deficit must be eliminated during the next fiscal year. It doesn't say how. So we need to look to the parts of the SPA that tell us what we are permitted to use CRF funds for. 92(b) says the contingency reserve fund is for common expenses that usually occur less often than once a year or that do not usually occur. In my opinion it would not be appropriate to use the CRF to pay the deficit because the deficit arose from payment of operating expenses (defined as expenses that occur either once a year or more often than once a year.)</p>
<p>How can a strata reach the point of having a deficit over a year? That would presumably require spending money that your strata does not have, and necessitate borrowing--commercially or from the CRF?</p>	<p>If I'm understanding the question correctly, it is a question about cash flow. Even if you were not experiencing a deficit, it isn't practical to expect to run your bank balance to zero at the end of the fiscal year. See SPA 105(1)(b) about budget surpluses. The strata could carry "the surplus forward as part of the operating fund" without reducing fees. In other words the cash sits in the chequing account to help with cash flow. At year-end the full amount should still be there; if not you're likely in a deficit for the fiscal year.</p>
<p>Why not use funds from the operating fund surplus to eliminate a deficit?</p>	<p>See above.</p>
<p>Is the use of the surplus not a part of the budget which is voted on? This could be amended at the AGM.</p>	<p>Council does not need a vote of the owners to choose how to deal with a surplus under Section 105(1) which provides 3 options. A vote of the owners is only required if a different option is being sought. Some stratas include a resolution for owners to approve their recommendation for the surplus but it is more of a courtesy - it is not required. So the council does not need to provide options for dealing with the surplus in the budget.</p>

Question	Answer
Contingency Reserve Fund (CRF)	
<p>Our strata pays our annual insurance premium using a loan from the CRF. This seems odd to me. Is it allowed?</p>	<p>Yes, it is allowed for temporary shortages and commonly occurs so that a strata can pay the insurance bill or several months of large gas bills etc. It is also helpful when owners in arrears have severely impacted the strata's cash flow. See slide 38. Section 95 of the Act says <i>the strata corporation may lend money in the contingency reserve fund to the operating fund as permitted by the regulations</i>. Regulation 6.3 says <i>the strata corporation may only lend money in the contingency reserve fund to the operating fund if both of the following conditions are met: (a) the loan is to be repaid by the end of that fiscal year of the strata corporation; (b) the loan is for the purpose of covering temporary shortages in the operating fund resulting from expenses becoming payable before the budgeted monthly contributions to the operating fund to cover these expenses have been collected</i>.</p> <p>So if a loan is required, the council should vote to approve it at a council meeting, record the decision in the minutes stating the exact amount and the reason. Although not required, I recommend that the council clearly state when the amount will be repaid to the CRF. Setting a schedule helps to ensure that it will be fully repaid to the CRF before the end of the fiscal year. It also provides transparency to the owners.</p>
<p>Do you need separate bank accounts for operating and CRF and or special levy fund?</p>	<p>1. If your strata is managed by a property management company, they are bound by the Real Estate Council of BC (RECBC) rules which require them to have at least one separate trust account in the name of the strata corporation, the CRF and, if there is a special levy, a separate account for the special levy money. 2. If your strata is self-managed it is not required to have separate bank accounts. Section 95 of the Act only says that <i>the strata corporation must account for money in the contingency reserve fund separately from other money of the strata corporation</i>. (i.e. separate bookkeeping.) However from a practical point of view, it is much easier to keep track of the operating and CRF funds if they are in separate accounts, especially if treasurers change from year-to-year. It is also more transparent for the owners.</p>

Question	Answer
<p>Can we have special levies if CRF does not have enough money in it for an expense</p>	<p>Yes. Section 108 states that <i>the strata corporation may raise money from the owners by means of a special levy</i>. It is common for large projects to use a combination of funds from the CRF and a special levy: separate resolutions to approve spending a certain amount from the CRF (a majority vote if the project is identified in the depreciation report) and a certain amount by special levy (levies always require a 3/4 vote).</p>
<p>In your example, the CRF is still below the 25% of expenses; how to make up the money? From monthly strata fee or slowly make up year after year?</p>	<p>This question relates to the minimum CRF contribution (slides 21 - 23). Remember that the operating budget must specify the amount of the contribution to the CRF (slide 7). So strata fees contribute to operating expenditures and the contribution to the CRF. How quickly the amount of the CRF must be brought to the minimum level is illustrated on slide 23.</p>
<p>Do you have to get back to 25% CRF within a certain time period? eg: within 1 to 5 years</p>	<p>1. Before I answer this question, please keep in mind that the required minimum is not a lot of money. If you refer to the funding models in your depreciation report you will likely find that your strata should be contributing much more. 2. To address your question: when the amount in the CRF has fallen below the minimum level, SPA Regulation 6.1 (slide 21) tells us the minimum amount that must be contributed that year to build it up again. An example is shown on slide 23. How many years that takes will depend on how far your CRF is below the 25% minimum and whether your owners approve a budget that contributes the bare minimum or higher. In theory, if the CRF was at zero, the budgeted amount of your operating expenses remained stable, and you were only contributing the 10% minimum to your CRF annually, your CRF would reach the 25% minimum in year 3 (assuming there were no expenditures from the CRF during that time period).</p>
<p>A DR with 3 models does not indicate what a council is going to do. In fact, ours has constantly just repaired when a problem vs following up on what the DR recommends.</p>	<p>A depreciation report is a tool that can be very useful in preparing a long-term plan. If council has not presented resolutions for projects identified in the DR, <i>persons holding at least 20% of the strata corporation's votes may, by written demand, require that the strata corporation hold a special general meeting to consider a resolution or other matter specified in the demand</i>. (aka a petition). The exact wording of the resolution must be included in the written demand. It is advisable to have a lawyer write the resolution(s) especially since repair projects require funding from the CRF and/or a special levy.</p>

Question	Answer
<p>Special assessments vs expand CRF. Constantly relying on special assessments suggests an inability to plan, wait until tomorrow, pass the buck to the future owners (maybe I will move). What would you do if you owned your house not in a strata. Spend as little as possible in your important investment?</p>	<p>Certainly the introduction of depreciation reports was a mechanism to help strata corporations plan for the future, and generally since then stratas have increased their contributions to the CRF. However it is rare to find a strata that has a fully funded CRF. So most will see that their projections/funding model is peppered with small or large special assessments over a 30-year period. Ultimately it comes down to the majority vote of the owners when they vote on the budget at the AGM. If you think the CRF contribution should be increased, you can make an amendment from the floor. If enough owners feel the way you do you may be successful at passing an amended budget.</p>
<p>Financial Reports</p>	
<p>Is it required to present new financial statements after an AGM if the AGM was held before the fiscal year end?</p>	<p>The AGM can be held within 2 months before or after the strata's fiscal year end. Even if the AGM is held after the fiscal year-end the council may only have interim financial statements ready for inclusion in the notice package (the notice package must go out at least 20 days before the AGM). So regardless of whether the AGM is before or after the fiscal year-end, the owners may only have received interim or estimated financial statements. Slide 39. Regulation 6.7(2) says "<i>Within 8 weeks after the end of its fiscal year, the strata corporation must prepare a financial statement updated to the end of the fiscal year.</i>" The regulation doesn't actually say that you have to present them to owners. However under section 36 of the Strata Property Act, an owner may request to inspect records and request copies of records. For clarity and transparency, some stratas take the practical approach of including the updated financial statements in the AGM minutes.</p>
<p>Is the operating a account balance to be included in the operating statement with collected revenue</p>	<p>The income statement doesn't show the bank balance; it shows the actual expenditures compared to the annual budget. Although not required you could prepare a balance sheet. A balance sheet shows all assets and liabilities. The bank account balances are shown in the assets.</p>

Question	Answer
<p>Do financial statements need to be audited?</p>	<p>There is no specific requirement for a financial audit under the Strata Property Act. Having said that, some strata corporations undertake financial audits or financial reviews for the comfort of the strata lot owners. Keep in mind that an audit will not necessarily tell you if an expense was properly authorized under the Act or your bylaws. Some stratas have a couple of owners review the books each year for transparency.</p>
<p>CRF accounts typically earn interest but the budget line did not show on the Operating Budget. This is incomplete financial information to the owners. Showing just the OB at an AGM without a full Income Statement would not be complete. How should this be resolved?</p>	<p>The interest earned in a CRF account is not revenue for the operating budget. The CRF budget is a separate budget and any interest earned in the CRF accounts or investments is CRF revenue that stays in the CRF. This webinar focused on Operating Budgets only but it is easy enough to refer you to the information about the CRF. Regulation 6.7 details what must be in the financial statement for the CRF. A reasonable interpretation would include: the opening balance of the CRF, interest earned, the CRF contributions, any surplus transferred in from the previous year, the details of expenditures out, and the current balance (closing balance).</p>
<p>Our strata seems to just show operating budget detail for either AGM purposes or any monthly reports made available to owners. Is there not a legal requirement to show all the details with regard to debits and credits for the CRF, either for AGM or any monthly reports? Full transparency. I ask now because our strata has been arguing for this for too long.</p>	<p>1. The Strata Property Act does not require monthly statements. It only requires financial statements once per year and requires them to be included in the notice package for the AGM. Slides 39-40. 2. The requirements for the financial statements are in Regulation 6.7(1). It details what must be in the financial statement for the CRF. A reasonable interpretation would include: the opening balance of the CRF, interest earned, the CRF contributions, any surplus transferred in from the previous year, the details of expenditures out, and the current balance (closing balance). However these are usually subtotals of numbers. For example, the CRF contributions would be one amount (not every individual transfer throughout the year). 3. If you want to see every debit and credit, you could make a written request. First check s35 to make sure that what you want to see is a document listed there (such as bank statements). Then under section 36 of the Strata Property Act, an owner may request to inspect records and request copies of records that are listed in s35.</p>
<p>Thank you, this has been very informative and I am looking forward to the upcoming webinars.</p>	<p>Thank you for joining us. See you next time.</p>