

# Financial Challenges

Like Condos — Are Not All Alike



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**NO TWO** condominium corporations are exactly alike, and although they may be similar in appearance (some may even say identical in all respects) physical factors are what make buildings. And condominiums are much more than buildings. Condominiums are communities and they are as diverse and varied as the people that live in them.

As the building ages the story of the condominium is written.

Different courses to similar challenges can be taken for a myriad of reasons such as: Is the focus to keep the building in pristine condition or simply to maintain it? Is the focus to offer up-to-date technology, be as green as possible, or both? Should the reserves be on target, close to target, or surpass the minimum target? The focus might simply be to keep the fees low in an attempt to ensure the financial challenges of home ownership do not become too burdensome, which often has dramatic short- and long-term consequences.

What the guardians of these fraternal siblings share in common in addition to their physical make-up is the obligation to protect the condominium's interest at all times, maintain the common elements and plan for their future. In so doing the board(s) and management must, at all times, remain cognizant of the money matters at hand and give thorough scrutiny to the direction taken and decisions made. And with the current economic challenges, residents will look to the board of directors more than ever to be fiscally responsible and cost conscious. In these times, especially, money matters, collections, expenses and savings become a focus for all condominiums and it is the decisions made by the board that differentiate one building and consequently one community from another. The following are some examples of decisions boards face. There may be many alternatives, and the decisions made will be influenced by the perspective, variables and professionals influencing those making the decision.

#### ■ Accounts Receivable

Every condominium needs to have an arrears collection policy. In these challenging economic times the corporation must maintain a policy that ensures their interests and rights are protected. Such policies must be nameless and faceless and most importantly universal in application. Section 85 of the *Condominium Act* is specific with respect to lien timelines and the course of action that must be taken to protect the corporation's interests. Boards are advised to refrain from becoming involved with the specifics of anyone's particular circumstances. As harsh as this may sound, there must be a standing procedure that is not revisited or re-evaluated on an individual basis. Its sole purpose must be to protect the interests of the condominium corporation and its application universal.

#### ■ Utilities +

In most highrise condominiums the cost of utilities can comprise

40 per cent or more of the annual operating budget. By now we all should recognize the world needs to be greener at every opportunity and condominium boards are in the advantageous position to lead this charge in their communities.

The board and management must look at the building's mechanical systems together with their HVAC trade and energy consultants for ways to reduce redundancies and maximize efficiencies where possible. This may require a capital investment in new equipment. However a return on investment in energy savings can be calculated and if the payback (inclusive of lost interest) is five years or less the opportunity should be pursued vigorously. The cost savings to the community, and equally if not more important to the environment, must remain top of mind at all times.

By modernizing systems and equipment, increasing the consciousness of energy consumption and what measures each resident can make to conserve can and will produce significant reductions. This is a big step or a baby step process and the secret is in consistency – to keep walking, one step and then another – small measures followed by small measures result in significant gains.

Television cable/satellite agreements where required should be set at the very minimum service level possible. My reason for this is cable is priced on a per residence basis however the condominium's individual proportionate share allocation can skew the amounts paid. By establishing a minimum level each owner may then contract for the enhanced services desired and pay directly for them, minimizing the impact of this expense to the condominium and resulting in a more accurate per household cost keeping this a user pay direct item. Many will argue this position.

Understand fully the condominium and suite boundaries. The boundary section of the declaration (most often Schedule C) determines the areas of responsibility for maintenance. It is not uncommon for corporations to overstep these lines when it comes to the maintenance

of fan coil units and heat pumps. It is wise to measure the impact of low flow toilets and conserving showerheads. This does not always have to be funded by the corporation but can be promoted by it. Have a wall chart in a prominent area identifying the number of suites that have converted and maintain a level of interest and enthusiasm that encourages changing the fixtures to conservation-minded ones.

Look at your standard unit bylaw with respect to floor coverings. Due to the many changes residents will make it may be possible to eliminate floor coverings from the description by changing your standard unit bylaw. The floor coverings may then be covered by the homeowners' policy and reduce the overall insurance cost and potential for frivolous claims to the corporation.

#### ■ Security

Security is often provided by concierge services. This can be a significant contract for the corporation when provided on a 24-hour basis, and it may not always provide the desired results. The board must evaluate the advantages of a stationary security guard versus a roving one or combination thereof. Electronic surveillance and controlled door access may also promote security and provide a detailed track record of use. The board must examine the costs and benefits of a manned security desk versus an electronic one and determine what level of service best fits the needs of their residences and the needs of the corporation's budget. Is the goal to offer security or is it to offer concierge related services? Once this is determined the course can be readily charted. A section 96 meeting may be required (consult with your solicitor) and if so use this meeting to again promote all cost savings initiatives and conservation measures.

#### ■ Legal Matters

The corporation's interests must be protected and not compromised. In the early years of the community this is especially important as precedents are cast in the formative years. Guidance from an experi-

enced manager and a lawyer who is a condominium specialist are extremely valuable at this stage. The advice given to one corporation by a solicitor and that given to another corporation by their solicitor is not always consistent – which is one of the reasons we have courts and litigators. And it is also one of the factors that promote key differences in communities.

Each individual legal matter comes with a myriad of factors that need to be weighed and measured. It is important not to become ensconced with the prospect of “winning” at all costs as this may not always be in the economic best interest of the corporation. Be careful not to allow precedents that can cause future challenges or compromise the corporation’s interests. Remain open and receptive to resolution and remember the best litigation lawyers are the ones that keep you *out* of court.

### ■ Code Changes

Unfortunately changes to the building code, which are usually centred around life safety issues and should for the most part be welcomed, arrive with little notice and can demand our immediate attention. Under the current Act such expenses typically do not qualify as Reserve Fund expenditures (hopefully this will be resolved in the next revisions of the Act) and can significantly impact our operating budgets. A corporation that maintains an operating surplus is much better prepared for these eventualities. Where possible, it is wise to establish a surplus or contingency of upwards to 8 per cent of your annual budget to help offset any unforeseen expenses or over expenditures that may arise.

### ■ Site Services, Landscaping & Snow Removal

Recently we have seen challenges in the transition in weed control efforts to natural methods rather than chemical means and this will potentially affect the general curb appeal of every community. A healthy lawn is your best defence against weeds.

The cost of ice melter is often a challenge to the budget in that no two winters are exactly alike. Making this cost a component of the tendering process where it is included in the service contract requiring an “ice free” state be maintained may lead to savings or at the very least, cost control. Remember to be green here as well and use environmentally friendly ice melter.

### ■ Management

It is beneficial to shop management periodically and in a manner that is not disruptive to the operations of the community. It is important to understand that continuity in management providers can be of great benefit to the corporation. In saying this, tendering to understand where you currently sit with respect to current market rates may be helpful – it may allow you to negotiate with the incumbent or evaluate the service delivery, technique and expertise of alternates. The value of management is not in the cost of the services but more so in the delivery of them. ACMO 2000 firms have established operating procedures that have been audited and tested by independent parties. Management firms with infrastructure and a proven track record are desirable in the early years. Experience of a team with new communities and Tarion will pay dividends for many years to come.

Another major consideration before every board of directors is the Reserve Fund contribution.

### ■ Reserve Fund Contributions

The Act requires that Reserve Fund contributions “*shall be the amount that is reasonably expected to provide sufficient funds for the major repair and replacement of the common elements and assets of the corporation, calculated on the basis of the expected repair and replacement costs and the life expectancy of the common elements and assets of the corporation*”, and this should never be compromised. Appreciate this is the minimum balance of the Reserve Fund target and there are few exceptions in life or business

where the absolute minimum of anything proves to be sufficient.

It is in the Reserve Fund study where the comparison of the buildings comes into play once again. However the aging process, the focus of past boards and the maintenance provided or lack thereof over the history of the development define the differences in maintenance and timing thereby determining contribution and funding needs. If past boards were conservative in their approach and others aggressive the differences here can be significant. Unfortunately the factor of compounding interest amplifies the differences and the history that led to current levels often disappears as the short-sighted focus often merely becomes the balance.

A large cash balance does not mean a strong reserve. The major repair and replacement history is more important than the balance.

Now more than ever is the time for the board and management to scrutinize every single expenditure and contract. Not only do we face our current economic challenges, the new HST lies in wait and will have significant impact on every condominium budget. It may also be a catalyst to some to accelerate the timetable of repairs in attempt to avoid the new tax.

Comprehending money matters and the related challenges is essential to successfully manage any condominium corporation.

Buildings may look alike and they may be built as sister corporations, however when one takes a closer look at the condominium and the community within them they are diverse and distinctly different. The most influential factor regarding the future of all condominiums is its individual past.

When making building comparisons one needs to look deeper than the physical similarities and understand the history that shaped the condominium and the community within it. ■

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