

## RESERVE FUNDS

The Condominium Property Act requires that condominium corporations establish and maintain a capital replacement reserve fund to provide for major repairs and replacement of property and common property owned by the corporation. As buildings age they need to be repaired and maintained e.g. the roof of the complex needs to be replaced. The same is true of other parts of the common property such as the asphalt in the parking lot, underground utilities, or services and landscaping. Condominium owners must pay for the repair or replacement costs of the property owned by the corporation. The reserve fund is not used for repairs or replacements that are done annually.

Condominium corporations registered before September 1, 2000 must have completed a reserve fund study and a reserve fund plan by September 2002. **Reserve fund studies must be conducted every five years.**

Condominium corporations registered after September 1, 2000, have two years from the registration date to do a reserve fund study and approve a plan.

The Act gives the board the responsibility and power to make decisions around the reserve fund. Although a responsible board will provide information to and obtain input from the owners, it need not consult the owners before making decisions on the reserve fund. The board must

- engage a qualified person to conduct and prepare a reserve fund study
- receive a reserve fund report from the qualified person
- prepare and adopt a reserve fund plan
- provide a copy of the approved reserve fund plan to the owners before implementing the plan
- maintain the reserve fund at an appropriate level so that the corporation can meet the statutory requirements
- maintain the reserve fund in a separate trust bank account and not combine the funds with other corporation funds except when bills are paid under the reserve fund plan, and ensure all managers or other persons handling the corporation money do the same
- prepare and provide to the owners, before or at the time of giving notice of every annual general meeting, an annual report on the reserve fund; including the opening balance, money in and out, where the income came from, what money was spent during the year, and the list of property repaired or replaced and the costs incurred for the repair or replacement; and
- not use the reserve fund for "improvements" unless the owners vote by special resolution to allow it. Improvements are normally changes, enhancements, alterations or additions to the common property or property owned by the Corporation which are not listed in the reserve fund study report.

### **How much money should be in the reserve fund?**

Each condominium corporation will have a different amount in its reserve fund. The corporation determines how much money it should have in its reserve fund by completing a reserve fund study. The reserve fund study is prepared for use by the condominium board, owners and buyers. It is not reviewed by the government.

## **How is the reserve fund funded?**

Corporations may meet their funding requirements by

- increasing condominium contributions (permanently or for a set period)
- levying special assessments (immediately or in the future)
- borrowing money
- using any combination of the above requirements.

This gives the corporation maximum flexibility as to how and when to deal with repair and replacement costs, while at the same time enabling it to deal with any potential surprises and undue hardship for owners.

For example, if the corporation does not have enough money in the reserve fund to cover significant repairs or incurs other large unexpected expenses, the board may require each condominium owner to pay a special assessment to cover the costs.

Who can do a reserve fund study?

Only a “qualified person” can do a reserve fund study. A qualified person would be someone who, based on reasonable and objective criteria, is knowledgeable about

- depreciating property
- the operation and maintenance of depreciating property
- the costs of replacements or repairs to depreciating property.

The board has the sole responsibility and authority to hire and should obtain quotes for a reserve fund study, as it would get quotes for any other contract. When choosing the person who best meets all the requirements of the corporation the board should

- ask for verification of the person’s qualifications
- ask for proof of liability insurance
- ask for and check references
- examine one of the person’s other reserve fund study reports to see if it meets the corporation’s needs and is understandable
- ask what follow-up assistance the person will provide
- interview the person
- ask about fees and any additional costs
- ask about timelines for completing the study and report.

Whoever is hired must provide the board with information about their qualifications and whether they are an employee, agent, or associate of the condominium corporation, its manager or maintenance provider.

## **Corporations with 12 or less units**

In condominium corporations with 12 or fewer units, the owners have a choice on how to conduct a reserve fund study. They may hire a qualified person or they may vote (by special resolution) to let the corporation be its own “qualified person” (meaning, the owners can do the study themselves).

Condominium corporations who choose to let the corporation be its own qualified person must meet all the criteria and guidelines for the report and reserve fund plan. If the owners do not pass a special resolution, the corporation must hire a qualified person to complete the reserve fund study and report.

## **What is included in a reserve fund study report?**

The qualified person who completes the reserve fund study must prepare a report on the common property and other property owned by the corporation to

- identify what may need to be repaired or replaced within the next 25 years
- assess the present condition of the property and estimate when it will need to be repaired or replaced
- assess the potential for increased damage to other common property and the potential cost if the repair or replacement is delayed
- estimate the costs of repair or replacement of the property, at a cost no less than current costs
- identify the life expectancy of a component if it is repaired or replaced
- identify the current level of funds in the reserve fund
- recommend the amount of money, if any, that should be included in or added to the reserve fund; and
- describe the basis for determining the current level of funds and recommend the amount of money required.

## **Updating the reserve fund study**

Every five years, condominium corporations must conduct a new reserve fund study. Once completed, the board must develop and adopt a new reserve fund plan. Before implementing the plan it should be presented to the unit owners for their information.

## **A reserve fund plan**

The board must prepare and approve a reserve fund plan based on the reserve fund report, decide what work to do and the order in which it will be done. The plan must show that sufficient funds will be available from the owner's contributions to repair or replace the property identified in the report.

Some questions the board needs to consider when developing the reserve fund plan:

1. How much money is needed to have sufficient funds in the reserve fund? If the report made any financial recommendations were they feasible or practical for the corporation?
2. What are the priorities for repair and replacement and what maintenance can be done to extend the life of any of those components?
3. What alternatives are available to raise the money needed to pay for the repair and replacement of property?
4. What are the practical realities, for the board and the other owners, of these funding alternatives? Will one alternative cause more hardship and community disruption than another? Is there a strong reason to choose one alternative over the other? Perhaps the board could discuss alternatives with the owners at an information meeting before making the final decision. Good community relations suggest the owners should not be surprised by the board's final decision.

Once the board has made the decision on which funding method to implement it should adopt the entire reserve fund plan and send a copy to the owners. A reserve fund plan will normally cover a five-year period, but may be updated by the board each year.

### **Conversions, previous rental buildings and new condominium corporations**

Residential condominium conversions must have a reserve fund study, reserve fund study report and a reserve fund plan in place before the developer sells the first unit. Purchasers are entitled to inspect the reserve fund report and the reserve fund plan.

If all the condominium units are owned by one owner or a group of owners, and are used as a rental property, the condominium corporation need not have a reserve fund. However, if the owners decide to sell any of the units, the condominium corporation must complete the reserve fund study, reserve fund study report and a reserve fund plan before any unit is sold.

New condominium corporations have two years from the date of registration of the condominium plan to complete the reserve fund study, reserve fund study report, and reserve fund plan.

The above information was obtained from:

[http://www.servicealberta.gov.ab.ca/tipsheets/buy\\_own\\_Condo.cfm](http://www.servicealberta.gov.ab.ca/tipsheets/buy_own_Condo.cfm)