

## **LMS1490, 2005 President's Report**

We are about to make important decisions for The New Yorker at this year's annual general meeting. In particular, I ask that you give careful consideration to both the proposed security improvements and the contingency reserve fund before attending the meeting, as these two issues significantly affect next year's budget. This report provides a brief background to these two issues, and more detail is available from Vancouver Condominium Services (VCS) before the AGM if you need it.

Your AGM package includes three alternate budgets for 2006. The first budget is called a "Minimum" budget because it contains only incremental increases to existing costs. The second budget provides expenses to fund strata council's recommendations detailed in this report and is therefore called the "Recommended" budget. The third budget shows the cost of implementing all recommendations delivered by the consultants we employed this year, and is called the "Maximum" budget. There are other minor differences between the budget options, and these are detailed on the first budget sheet.

Before I provide an overview, I'd like to give credit to this year's strata council for spending time to research, understand and debate these major issues in addition to handling the almost daily strata issues that arise and compete for our time. We have been fortunate to have a council made up of concerned individuals that have maintained a solid focus on the good of the corporation as a whole. This report provides our considered recommendation.

### **Security**

As a result of security concerns and incidents in 2004, a large portion of our agenda in 2005 has been taken up with obtaining security advice, performing a security review, and determining an appropriate level of security for The New Yorker. The importance of adequate security was again brought home this year when many cars in the garage suffered damage as a result of a series of break-ins. Short term counter-measures cost the corporation in excess of \$6,000 in addition to the cost of individuals' deductibles.

We had obtained various security enhancement proposals towards the end of 2004, but felt that an independent review of our security was necessary before spending in this area. This year, the council obtained advice on security from the police, a representative of the City of Vancouver, and a security consultant. The consultant has provided a good deal of advice and a security plan, copies of which may be obtained from VCS – although the plan consists mainly of tables which are not so easy to read.

Basically, the council learned that:

- The level of security we require need only be slightly higher than surrounding properties; break and entry crime is usually performed on the easiest targets. Criminals gradually learn to overcome security measures, though, and other buildings in the vicinity improve their security as a result of break-ins, and this means that our level of security must be gradually increased over time.
- "Layering", the process of providing more than one secure barrier to entry, is a good deterrent. Currently, our suites are protected by two layers of security, but the garage by only one.
- Identity theft is increasingly common and we have received several attempts to break into our mail boxes this year via the timer release at the front door. Note that our mail boxes are protected by only one layer of security.

- Theft from cars in a garage is far more common than entry to a suite, and if a garage is broken into, then it is highly unlikely that this will result in subsequent B&E in suites.
- We are almost continuously sustaining attempted break-ins to the garage level. (The garage door and lock have been repaired and strengthened several times this year.)
- Our garage door remote system is a low security type, does not contain codes unique to the building, and it is highly likely that "wild" remotes exist that will open our door.
- The enterphone system can be considered a security "hole" in that it allows the entry doors to be opened without being monitored. Visitors can be "tail-gated" or uninvited guests let in simply because they can't be adequately identified by the poor quality of sound provided by our system.
- Currently we have no way of tracking how a B&E crime occurs. Camera monitoring hardly ever results in identification of an individual, but is of value in identifying how a crime is carried out so that appropriate measures can be taken to prevent it in future.

Based on the security review, a range of security options were provided to council. We recommend that some of these options be implemented during 2006 as follows:

- Replace the garage remote opener system with a more secure type.
- Replace the current enterphone system with a new one.
- Upgrade locks and generally improve the physical security of all building entry points.
- Replace the key system with an electronic entry system that uses fobs.
- Install security cameras in four locations, with associated recording and monitoring equipment. Visual identification of visitors will be possible via your TV sets.

The council does not consider that increasing internal security (locking off separate floors, providing elevator security, etc.) or providing a second layer of security in the garage (such as a second overhead door) is warranted at this time. It will likely merit consideration at a later time.

Initial budget quotations were obtained to provide and install the equipment, but selection of specific types of equipment will not occur until this budget item has been approved at the AGM. Given the high cost of the equipment we recommend that the corporation enter into a lease agreement in order to spread the financial load. The line item "special security" in the "Recommended" budget therefore includes the budgeted lease cost of the equipment to provide the upgrades listed above, the cost of "target hardening" entry points, and \$2,000 for unexpected incident expenses.

## **Contingency reserve fund (CRF)**

We generally regard our CRF as healthy and able to withstand any unforeseen expenses we might incur in any one year. The purpose of a CRF is primarily to fund not only unforeseen expenses, though, but also all expenses that occur at less than annual intervals. These expenses might eventually include the repair or replacement of virtually all the material components of the building.

With the advancing age of The New Yorker (10 years since renovation) the strata council felt it necessary to determine what future expenses might be incurred in order to ensure enough funds are available when needed. Other provinces mandate that strata corporations must have completed a contingency reserve fund study and have sufficient funding in place, but this is not currently the case in BC.

Funding to perform a CRF study was approved at the 2004 AGM. In 2005, Halsall Associates Ltd was selected and subsequently employed to perform a review of our building's physical structure and mechanical components and provide a report. The report includes a replacement/repair cost schedule for all items that would likely be funded by the CRF, and two scenarios for adjusting CRF contributions to accumulate sufficient funds. Copies of the Contingency Reserve Fund Study

may be obtained from VCS in hardcopy at the requester's expense and electronically by e-mail free of charge.

Halsall keeps a comprehensive database of the actual life spans (and replacement costs) of various building components as experienced in different climates across the country, although naturally many factors play into when we should expect any part of our particular building to require repair or replacement, not least of which is the initial build quality. Halsall used inspection of actual building components, known history, and the database to project likely failure dates for the various components of our building. These dates may be different in reality, or we may choose to perform repair and replacement at different (*i.e.*, earlier) dates.

The strata council determined that \$40,000 would be an acceptable minimum level for the CRF in any one year, and this was used to help determine CRF contributions in Halsall's funding model. The Halsall study for The New Yorker extends until the year 2019.

From the Halsall report, it appears that our first "critical year" is 2012, when Halsall expects The New Yorker to require replacement of the roof system and deck. In 2012, \$211,157 will be required to fund this replacement. For the years 2006 to 2011, Halsall expects a variety of other withdrawals from the CRF to be necessary, totaling \$194,098 for these six years. These are large sums that our current CRF balance of approximately \$70,000 will obviously not cover.

There are several ways to fund the shortfall. Halsall recommends an immediate increase in CRF contributions for 2006 with inflation-matching increases in subsequent years. This would mean a 343% increase (to \$46,477) in CRF contributions for 2006! Alternatively, Halsall suggests a slower ramp up in contributions might be more acceptable. In order to meet the critical years, we would need to ramp up at a cumulative rate of 40.1% in contributions to the CRF each year until 2012. For 2006 this would mean a CRF contribution of approximately \$14,691, depending on the actual amount in the fund at 2004/2005 fiscal year end. This second scenario results in lower initial contributions but higher future contributions than those for the inflation-matched scenario.

A third option, not mentioned in the Halsall report, would be to raise the necessary capital via special levy as and when expenses occur, or perhaps a combination of increased contributions and special levies.

In all cases, whether we like it or not, sufficient funds must be available when required to maintain the building and preserve the value of our investment. The issue is not "Should we?" but "How?". Halsall suggests an immediate increase in contributions is the most fair way to fund the shortfall. The strata council recommends a proactive approach to this issue but suggests that the 40.1% ramp-up scenario is likely the most acceptable, and this is shown in our "Recommended" budget option.

To decide how you will vote on this issue at the AGM you will need to consider these and other factors:

- Payment: Which funding scenario best matches your ability to pay?
- Availability of funds: Whether accumulating funds in a CRF or a special levy is the most likely to result in funds being available when required.
- Preferred rate of increase: An immediate increase would result in subsequent increases only at the rate of inflation, whereas a 40% year-over-year increase will considerably exceed the rate of inflation.
- Your future tenure in the building: If your plans include the sale of your unit in the near future there may be a number of reasons to prefer the special assessment option in order to avoid as much expense as possible in the near term. However, it should be remembered that an adequate CRF will also be attractive to a prospective buyer, and that in any case, if a special assessment has been approved it becomes payable in full upon the sale of the unit.

- Comparison with other “competitive” buildings: Higher than normal strata fees might be considered negatively by prospective purchasers of your unit. (Although it’s a little hard to sell a unit with no roof, even though the strata fees are reasonable.) One would hope prospective purchasers will consider an adequate CRF a good investment.

Given the long-term nature of this issue, future events may change its priority. For instance, depending on your preference, any number of popular cataclysmic events could impact the future of The New Yorker, from astronomically higher energy prices, to global warming, terrorism, and earthquakes. In these worst-case scenarios, putting funds aside to repaint the awning several years down the road may not be such a priority after all! However, the strata council believes that the prudent course is to plan for proper maintenance of the building over a reasonable horizon.

## **Closing**

I hope to see you at the AGM. If for any reason you do not expect to attend, I urge you to designate a proxy who will attend as it important to hear from as many owners as possible on these issues.

Thank you for your consideration of these issues, and for your support of your strata council throughout the 2004-2005 fiscal year.

Stephen Hale