

CONDO LIVING



MARZKY RAGSAC JR. - FOTOLIA

The spirit of the law is to ensure that every condominium saves enough money to be able to pay for all of the required repairs and replacements for the foreseeable future.

Take a good look at your reserve fund



STEPHEN CHESNEY

CONDO CORNER

Over the past few years, I have noticed that many condo owners have been questioning the increasing monthly condo fees and rightfully so.

However without even looking at their specific situation, I can safely predict that the increase is in a large part due to an increase in the reserve fund contribution. This is a topic that confuses many condo owners so let's discuss the reserve fund.

If you live in a home (as opposed to a condominium) and you know that your roof needs to be replaced in a few years, there is nothing in the law in Ontario that forces you to go to the bank and put away enough money each year to fund that eventual replacement.

You can wait until the water is leaking into your home and at that time determine how you will pay for the new roof.

The Condominium Act of Ontario is the exact opposite for condo owners. The Act mandates that every condominium corporation must take a portion of every dollar that the owners contribute and put it aside in a reserve fund.

This special fund is established for the sole purpose of paying for major repair and replacement of the common elements of the corporation. In most condominiums, examples of the common elements would include windows, roof, parking garage and many other amenities.

In order for the Board of Directors to determine how

much of the total monthly condominium fees need to be contributed to the reserve fund, the law requires them to hire consultants, often engineers to perform a reserve fund study.

This study includes an inventory of the common elements of the corporation and the number of years until they will need to be repaired or replaced. The consultants then prepare a schedule that recommends the annual contributions to the fund for the next 30 years.

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For the most part once this reserve fund study is completed, the Board of Directors must follow the recommended annual contributions and build them into their annual budget.

This recommended annual contribution can be anywhere from 10% to as high as 40% of the total annual budget and in some cases even more.

As buildings get older many more items are in need of repair and replacement and thus the consultants have to increase their recommended contribution to the fund.

This increase must be passed onto the owners dollar-for-dollar in most cases and therefore the increase goes right to the owners' monthly fees. Generally the Board of Directors have no choice but to follow the plan.

So if you have noticed a large increase in your monthly fees from one year to the next there is a good chance that it is the result of the Board of Directors following the law and putting additional money into the reserve fund.

Although it might be a tough pill to swallow, when selling your unit it will pay dividends as a fully funded reserve fund is far more attractive than a fund that is insufficient.

A prudent purchaser or purchaser's lawyer will have a good look at the balance in the reserve fund and how well it meets the recommendations of the reserve fund study.

I have attended many meetings where the owners get quite upset with the Board for increasing condominium fees, but unfortunately they are just following the law. This part of the law on reserve funds is very good for owners in the long run.

It forces all Ontario condominiums to save for the future and this sets us apart from other jurisdictions in the world where they do not force the owners to save annually and they inevitably receive special assessments all too often! In my next article I will discuss other large expenses that are affecting condominium fees today.

— Stephen Chesney is a chartered accountant and a partner in the firm Parker Garber and Chesney Chartered Accountants. The firm acts as auditors for more than 350 condominium corporations in Ontario.