

CONDO LIVING

What is in your monthly condo fee?

Keeping condo fees in check not an easy job at the best of times



STEPHEN CHESNEY

CONDO CORNER

There seems to be great confusion among owners of condominium units in Ontario today with respect to how the annual budget is prepared by the Board of Directors and more specifically how their monthly condo fees are actually calculated.

I attend annual general meetings of the owners almost every night of the workweek and the most common complaint coming from the owners is that their condo fees are too high and why are they not being reduced.

I think it would be helpful to explain exactly how condo fees are actually calculated with special attention to the specific components, especially the contribution to the reserve fund for major repairs and replacements.

Contrary to many popular beliefs, condo fees are not supposed to be pulled out of thin air for they are determined by creating a detailed annual budget.

As well, many owners forget that the members of the Board of Directors are owners as well and any increases are just as unpleasant for the board as is for the remainder of the owners.

To begin, it is interesting to note that a budget is created from the bottom up. Many people believe that the Board just debates over the percentage increase or decrease in fees with the focus being on the revenues (condo fees) but that is just not true.

To create a proper budget, they must start with the anticipated operating expenses for the year and then add to that the required contributions to the reserve fund that was sent to the owners in their most

recent funding plan.

In many cases even if their operating expenses remain constant for the next year, they must add in the contribution amount that the consultants (usually engineers) have prescribed in their current reserve fund study.

Therefore, if the reserve

fund study calls for a large increase in contributions for the next year, the Board must follow and add that increased amount into the budget in order to adhere to the Condominium Act of Ontario.

This is why the increase in overall condo fees are often not due to increases in operating costs, but primarily due to an increase in the reserve fund contribution (covered in my previous article).

Once the total reserve fund contribution is added to the anticipated operating costs, the final annual budget is determined and in turn

becomes the condominium fees for that upcoming year.

Each owner would then pay their ownership percentage of that total budget on a monthly basis for the next year. It is at this point that the total fees can be compared to the previous year and the percentage increase or decrease is calculated.

The constant battle for the Board of Directors is to ensure that the condominium is getting the best possible value for each dollar spent on service contracts and maintenance expenses.

While at the same time,

they must continue to meet the requirements of the law and contribute to the reserve fund to ensure that it is adequate for the major repairs and replacements of the common elements. Not an easy job at the best of times!

So if you feel that your monthly fees are too high, take a good look at the annual budget and all of the components within it.

It is often very hard to reduce the monthly fees while at the same time maintaining all of the services that the condominium is required to provide and of course continu-

ing to set aside the required dollars into the reserve fund. What services are you willing to remove in order to reduce fees?

— 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.



The constant battle for a condo's board of directors is to ensure that the condominium is getting the best possible value for each dollar spent on service contracts and maintenance expenses.

PRESSMASTER - FOTOLIA