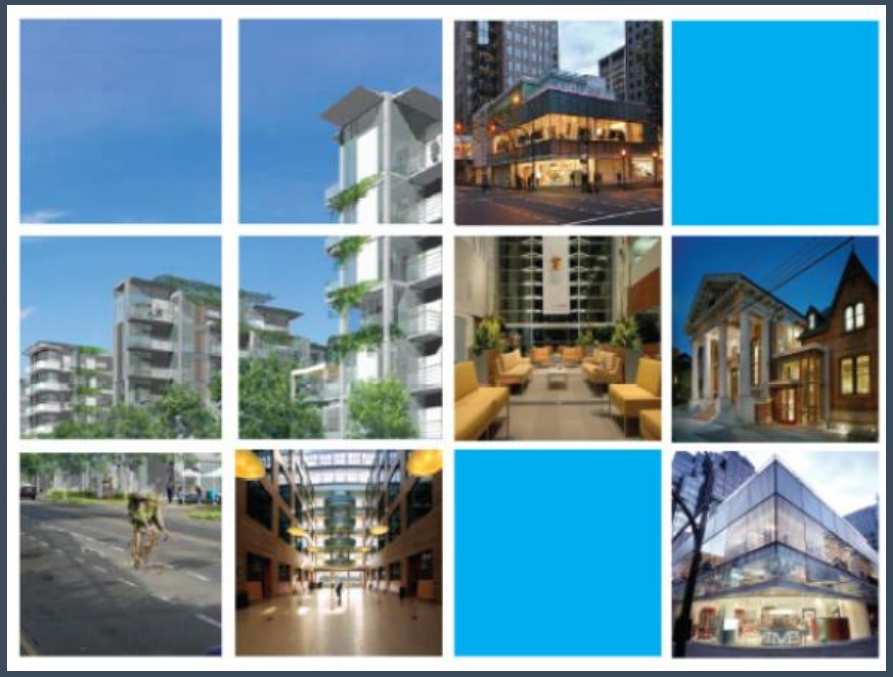
Depreciation Reports / Capital Reserve Fund Studies



February 18, 2012

Glade Schoenfeld, BASc, AScT, RRO, EIT.

Read Jones Christoffersen
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Agenda

- Purpose of a DR/CRFS
- What is a DR/CRFS?
- What is required by the Amended Strata Property Act
- DR Process
- Types of Reports
- Report Format

Purpose of a DR/CRFS

- A DR/CRFS provides a financial window to assist in preparation for **expected** major repairs and replacement of real common property owned by the Strata Corporation, where the repair and replacement does not normally occur annually.

  - Unexpected (earlier than scheduled) costs are not included.
  - Items of routine or annual maintenance are not included.

What is a DR/CRFS?

- An inventory of Strata common property
- Opinion of common property condition
- Planned maintenance, renewal & replacement
- Update of current balance in CRF
- Provides an opinion of future renewal and replacement costs
- Cash flow for funding renewal and replacement over 30 years

What is required by the Amended Strata Property Act?

- Timing of implementation
- Data collection (requires site visit)
- Common Property
- Financials
- Disclosure
- Qualifications

Timing

- Open to some interpretation
- DR required by December 13, 2013
- DR required at 3 year intervals following first report
- A Strata may opt out with a ¾ vote every 18 months
- Stratas with 4 or less strata lots are exempt

15 Section 94 is repealed and the following substituted:

Depreciation report

94 (1) In this section, **"qualified person"** has the meaning set out in the regulations.

(2) Subject to subsection (3), a strata corporation must obtain from a qualified person, on or before the following dates, a depreciation report estimating the repair and replacement cost for major items in the strata corporation and the expected life of those items:

(a) for the first time, the date that is 2 years after the coming into force of this section;

(b) if the strata corporation has, before or after the coming into force of this section, obtained a depreciation report that complies with the requirements of this section, the date that is the prescribed period after the date on which that report was obtained;

(c) if the strata corporation has, under subsection (3) (a), waived the requirement under this subsection to obtain a depreciation report, the date that is the prescribed period after the date on which the resolution waiving the requirement was passed.

(3) A strata corporation need not comply with the requirement under subsection (2) to obtain a depreciation report on or before a certain date if

(a) the strata corporation, by a resolution passed by a 3/4 vote at an annual or special general meeting within the prescribed period, waives that requirement, or

(b) the strata corporation is a member of a prescribed class of strata corporations.

(4) A depreciation report referred to in subsection (2) must contain the information set out in the regulations.

Excerpt of BC Strata Property Act - Amended Section 94 (emphasis added)

Data Collection

- The Act requires site visits to collect data
  - Visual in nature
  - No destructive testing
  - No removal of finishes

- Past reports & original construction documents
  - Detailed reports can provide information to help refine opinion of costs

Common Property Defined by the Act

"common property" means

(a) that part of the land and buildings shown on a strata plan that is not part of a strata lot, and

(b) pipes, wires, cables, chutes, ducts and other facilities for the passage or provision of water, sewage, drainage, gas, oil, electricity, telephone, radio, television, garbage, heating and cooling systems, or other similar services, if they are located

(i) within a floor, wall or ceiling that forms a boundary

(A) between a strata lot and another strata lot,

(B) between a strata lot and the common property, or

(C) between a strata lot or common property and another parcel of land, or

(ii) wholly or partially within a strata lot, if they are capable of being and intended to be used in connection with the enjoyment of another strata lot or the common property;

Excerpt of BC Strata Property Act - Section 1

Typical Common Property

Site

- Landscaping (hard and soft elements)
- Traffic and parking areas
- Site drainage systems

Structure

- Visible building structure
- Parking structures

Exterior/Building Envelope

- Cladding
- Windows/Exterior Doors
- Balconies
- Roofing systems and moisture protection

Interior

- Interior elements of units that are common property only (such as office, storage areas, hallways, lobbies, doors, carpet, etc...)
- Recreation facilities

Mechanical and Electrical

- Common area mechanical and electrical components
- Elevators
- Plumbing
- Boilers
- HVAC
- Intercoms
- Fire Protection

Financials

- Repair and replacement costs forecasted for a 30 yr period
- 3 funding scenarios describing how a Strata can plan and save for future expenditures
- Current CRF contributions and balance

Disclosure

- Name and qualifications of the author
- Errors & Omissions Insurance
  - Most professional association require E&O insurance
- Relationship of author to the Strata

“Qualified Person”

“**Qualified Person** means any person with knowledge and expertise to understand individual components, scope and complexity of the strata corporations common property...”

This **may** include:

- –Professional Engineers
- –Architects
- –Certified Reserve Planners
- –Members of Appraisals Institute
- –Professional Quantity Surveyors
- –“Other persons who meet the qualifications and skills required.”

Qualified Team

- Technical experience in assessing existing buildings
- Knowledge of building systems, codes, construction practices, construction materials and interdependency of various building systems
- Internal peer review
  - Two signatures (author and reviewer)
- Errors and omissions insurance
- Experience with Strata Corporations
- Understanding of a Stratas financial obligations

What to expect during the DR

- Proposal acceptance
- Coordination of sub consultants if required
- Review documents
- Determine common property
- Visit site
- Review from exterior & select interior of suites
- Measure and record quantities
- Form an opinion of general condition
- Determine component costs & replacement time frame
- Develop funding scenarios
- Present draft report for review
- Meet with the Strata
- Strata selects funding scenarios for final report
- Prepare and issue final report
- Repeat every 3 years

Types of DR's

- Summary Report
- Comprehensive Report
- Both style of reports can meet the requirements of the Act

Summary Report

- What?
- How much?
- When?

An experienced professional will apply judgment when assessing components although there will be little discussion to explain why and how.

Comprehensive Report

- What?
- How much?
- When?
- Why?
- How?

What to expect in the report

- Report Body
- Condition Survey
- Capital Replacement Items Schedule
- Expenditure Schedule
- Funding Scenarios & Graphs

Report Body

- Terms of Reference
  - Definitions, Methodology For Calculations, Common Property, Life Expectancy and Replacement Costs
- History & Description of the Complex
- Discussion
  - Condition survey, schedules, & graphs
- Recommendations
- Additional Investigations

Funding Scenarios

- Typically several funding scenarios are presented in the draft report
- 3 scenarios are required for the final report

Scenario One:	**Initial Contribution of $59,000 in 2012.** **Annual Increase of 2.0% thereafter.** This scenario is not recommended.
Scenario Two:	**Initial Contribution of $59,000 in 2012.** **Annual Increase of 7.5% thereafter.** **Special Assessments Totalling $2,800,000.** This scenario provides sufficient funding beyond the 25-year projection.
Scenario Three:	**Initial Contribution of $59,000 in 2012.** **Annual Increase of 9.5% thereafter.** **Special Assessments Totalling $1,935,000.** This scenario provides sufficient funding beyond the 25-year projection.
Scenario Four:	**Initial Contribution of $59,000 in 2012.** **Annual Increase of 12.9% thereafter.** **Special Assessment Totalling $135,000.** This scenario provides sufficient funding beyond the 25-year projection.
Scenario Five:	**Initial Contribution of $59,000 in 2012.** **Adjusted Contribution of $118,000 in 2013.** **Annual Increase of 6.8% thereafter.** **Special Assessments Totalling $120,000.** This scenario provides sufficient funding beyond the 25-year projection.

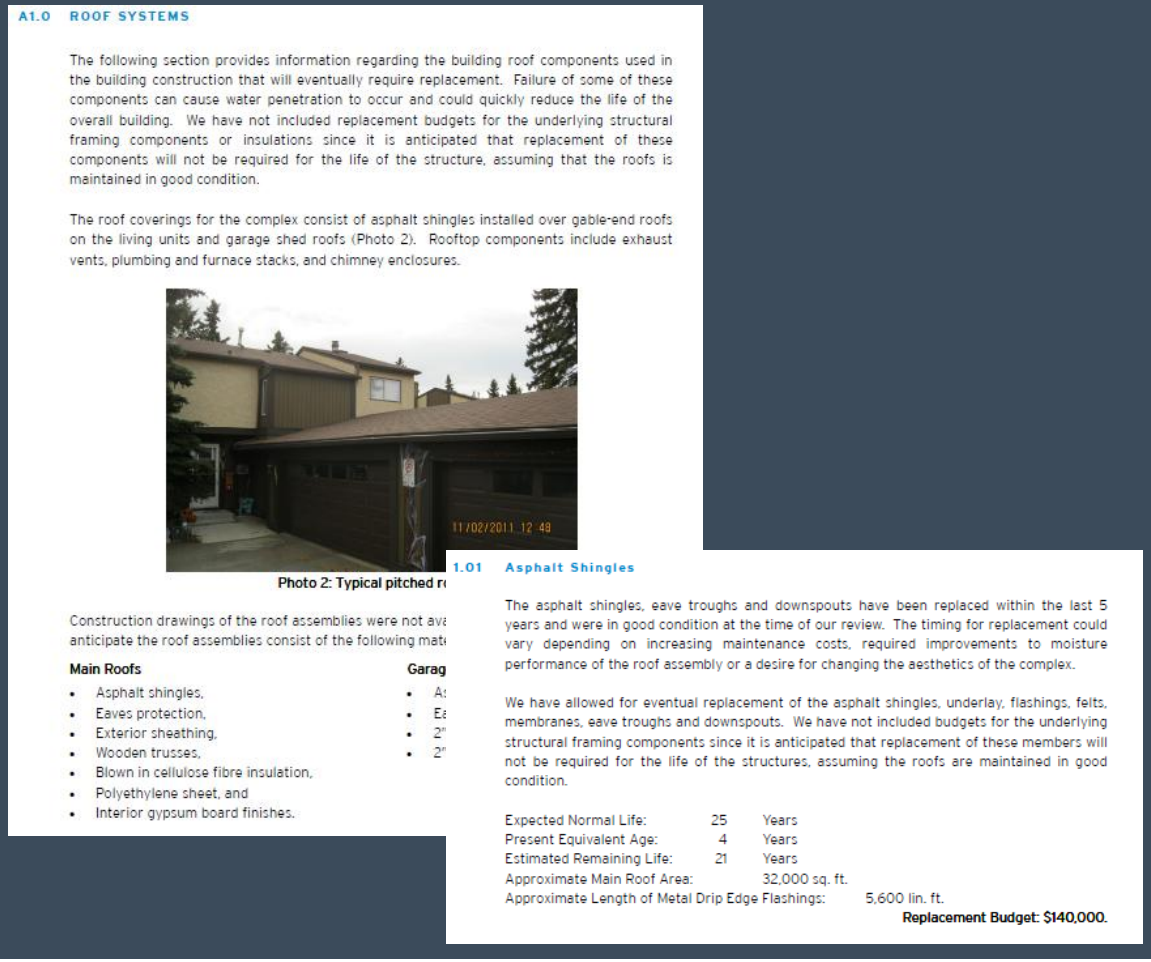
Condition Survey

Comprehensive report

- Visual review
- Determine the general condition of common property
- Describe assemblies and note any issues
- Justify service life assumptions

Summary Report

- Table format



A1.0 ROOF SYSTEMS

The following section provides information regarding the building roof components used in the building construction that will eventually require replacement. Failure of some of these components can cause water penetration to occur and could quickly reduce the life of the overall building. We have not included replacement budgets for the underlying structural framing components or insulations since it is anticipated that replacement of these components will not be required for the life of the structure, assuming that the roofs is maintained in good condition.

The roof coverings for the complex consist of asphalt shingles installed over gable-end roofs on the living units and garage shed roofs (Photo 2). Rooftop components include exhaust vents, plumbing and furnace stacks, and chimney enclosures.

Photo 2: Typical pitched r

Construction drawings of the roof assemblies were not ava
anticipate the roof assemblies consist of the following mat

Main Roofs

- Asphalt shingles,
- Eaves protection,
- Exterior sheathing,
- Wooden trusses,
- Blown in cellulose fibre insulation,
- Polyethylene sheet, and
- Interior gypsum board finishes.

Garag

- A
- Ea
- 2"
- 2"

1.01 Asphalt Shingles

The asphalt shingles, eave troughs and downspouts have been replaced within the last 5 years and were in good condition at the time of our review. The timing for replacement could vary depending on increasing maintenance costs, required improvements to moisture performance of the roof assembly or a desire for changing the aesthetics of the complex.

We have allowed for eventual replacement of the asphalt shingles, underlay, flashings, felts, membranes, eave troughs and downspouts. We have not included budgets for the underlying structural framing components since it is anticipated that replacement of these members will not be required for the life of the structures, assuming the roofs are maintained in good condition.

Expected Normal Life:	25	Years
Present Equivalent Age:	4	Years
Estimated Remaining Life:	21	Years
Approximate Main Roof Area:		32,000 sq. ft.
Approximate Length of Metal Drip Edge Flashings:		5,600 lin. ft.

Replacement Budget: $140,000.

Items Schedule

25 YEAR PROJECTION **CAPITAL REPLACEMENT ITEMS SCHEDULE**

Draft

Financial Analysis for Year Ended:	2011
Date of Study:	January 2012
Fund Balance (Year end 2009):	$63,700
RJC Job No.:	
Interest Rate:	5.0%
Inflation Rate:	2.0%

Item	Description of work		Budget Cost For Repair or Replacement (present $'s)	Expenditure Spread (years)	Expenditure per year (present $'s)	Expected Normal Life (Years)	Present Equivalent Age (years)	Estimated Life Remaining (years)	Total Budget Cost Over 25 (present $'s)
A1.0 ROOF SYSTEMS									
1.01	Asphalt Shingles	replace	$140,000	1	$140,000	25	4	21	$140,000
1.02	Fascia	replace	$40,000	1	$40,000	45	26	19	$40,000
1.03	Eavestroughs and Downspouts	replace	$50,000	1	$50,000	25	6	19	$50,000
1.04	Chimney Cap Flashing	replace	$30,000	1	$30,000	45	26	19	$30,000
1.05	Roof Repairs	repair	$10,000	1	$10,000	5	4	1	$50,000
A2.0 BUILDING EXTERIOR COMMON AREAS									
2.01	Exterior Cladding – Stucco and Wood Siding - Replacement	replace	$1,180,000	2	$590,000	45	26	19	$1,180,000
2.02	Exterior Cladding – Wood Siding - Re-staining	re-stain	$90,000	1	$90,000	10	0	10	$90,000
2.03	Wood Trim Boards	replace	$100,000	2	$50,000	45	26	19	$100,000
2.04	Windows	replace	$385,000	2	$192,500	25	6	19	$385,000
2.05	Screen Doors	replace	$25,000	1	$25,000	25	5	20	$25,000
2.06	Entrance Doors	replace	$60,000	2	$30,000	30	5	25	$30,000
2.07	Patio Doors	replace	$75,000	2	$37,500	30	5	25	$37,500
2.08	Overhead Garage Doors	replace	$65,000	2	$32,500	25	11	14	$65,000
2.09	Caulking – Windows and Doors	replace	$65,000	1	$65,000	15	14	1	$130,000
2.10	Caulking – Building	replace	$40,000	1	$40,000	15	13	2	$80,000
2.11	Building Exterior - Repairs	repair	$20,000	1	$20,000	5	0	5	$80,000
2.12	Foundation Walls - Repair	repair	$15,000	1	$15,000	10	9	1	$45,000
A3.0 SITE WORK									
3.01	Miscellaneous Concrete Works - Repairs	selective repair	$10,000	1	$10,000	5	2	3	$50,000
3.02	Precast Concrete Stoops	replace	$60,000	4	$15,000	60	30	30	$0
3.03	Garage Pad Replacement (2012)	replace	$100,000	1	$100,000	45	44	1	$100,000
3.04	Concrete Garage Pads (Original)	replace	$700,000	6	$116,667	45	25	20	$700,000
3.05	Wood Fencing (Original)	replace	$45,000	1	$45,000	20	18	2	$90,000
3.06	Wood Fencing (2004 to 2011)	replace	$45,000	1	$45,000	20	8	12	$45,000
3.07	Wood Fencing - Re-Stain	re-stain	$40,000	1	$40,000	5	1	4	$200,000
3.08	Chain Link Fencing	replace	$60,000	1	$60,000	45	30	15	$60,000
3.08	Asphalt Pavement - Replace	replace	$375,000	1	$375,000	45	27	18	$375,000
3.09	Asphalt Pavement - Repairs	repair	$15,000	1	$15,000	5	2	3	$75,000
3.10	Wood Signs	replace	$15,000	1	$15,000	45	20	25	$15,000
A4.0 MECHANICAL SYSTEMS									
4.01	Storm and Sewer System	repair	$50,000	1	$50,000	15	3	12	$50,000
4.02	Water Works	repair	$20,000	1	$20,000	25	15	10	$20,000
4.03	Water Works – Saddle Connections	replace	$400,000	1	$400,000	45	35	10	$400,000
4.04	Hose Bibs and Dryer Vents	replace	$5,000	1	$5,000	45	26	19	$5,000
A5.0 ELECTRICAL SYSTEMS									
5.01	Transformers and Main Services	repair	$20,000	1	$20,000	20	9	11	$20,000
5.02	Exterior Wall-Mounted Lights	replace	$20,000	2	$10,000	25	6	19	$20,000
5.03	Exterior Plug-ins	replace	$5,000	1	$5,000	25	6	19	$5,000
5.04	Light Standards	replace	$20,000	2	$10,000	45	28	17	$20,000
								Total Expenditures For 25 Year Period:	$4,807,500

Expenditure Schedule

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EXPENDITURE SCHEDULE (page 1 of 2)

Financial Analysis for Year Ended: 2011
Date of Study: January 2012
Fund Balance (Year end 2011): $63,700
RJC Job No.: 0
Interest Rate: 5.0%
Inflation Rate: 2.0%

Draft

CELL DELETED indicates an adjustemtn to the calculations to avoid overlapping work.

Item	Description	Year-->	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
A1.0 ROOF SYSTEMS														
1.01	Asphalt Shingles	replace												
1.02	Fascia	replace												
1.03	Eavestroughs and Downspouts	replace												
1.04	Chimney Cap Flashing	replace												
1.05	Roof Repairs	repair	$10,000					$10,000					$10,000	
A2.0 BUILDING EXTERIOR COMMON AREAS														
2.01	Exterior Cladding – Stucco and Wood Siding - Replacement	replace												
2.02	Exterior Cladding – Wood Siding - Re-staining	re-stain										$90,000		
2.03	Wood Trim Boards	replace												
2.04	Windows	replace												
2.05	Screen Doors	replace												
2.06	Entrance Doors	replace												
2.07	Patio Doors	replace												
2.08	Overhead Garage Doors	replace												
2.09	Caulking – Windows and Doors	replace	$65,000											
2.10	Caulking – Building	replace		$40,000										
2.11	Building Exterior - Repairs	repair					$20,000					$20,000		
2.12	Foundation Walls - Repair	repair	$15,000										$15,000	
A3.0 SITE WORK														
3.01	Miscellaneous Concrete Works - Repairs	selective repair			$10,000					$10,000				
3.02	Precast Concrete Stoops	replace												
3.03	Garage Pad Replacement (2012)	replace	$100,000											
3.04	Concrete Garage Pads (Original)	replace												
3.05	Wood Fencing (Original)	replace		$45,000										
3.06	Wood Fencing (2004 to 2011)	replace												$45,000
3.07	Wood Fencing - Re-Stain	re-stain				$40,000					$40,000			
3.08	Chain Link Fencing	replace												
3.08	Asphalt Pavement - Replace	replace												
3.09	Asphalt Pavement - Repairs	repair			$15,000					$15,000				
3.10	Wood Signs	replace												
A4.0 MECHANICAL SYSTEMS														
4.01	Storm and Sewer System	repair												$50,000
4.02	Water Works	repair										$20,000		
4.03	Water Works – Saddle Connections	replace										$400,000		
4.04	Hose Bibs and Dryer Vents	replace												
A5.0 ELECTRICAL SYSTEMS														
5.01	Transformers and Main Services	repair											$20,000	
5.02	Exterior Wall-Mounted Lights	replace												
5.03	Exterior Plug-ins	replace												
5.04	Light Standards	replace												
		YEARLY TOTALS	$190,000	$85,000	$25,000	$40,000	$20,000	$10,000	$0	$25,000	$40,000	$530,000	$45,000	$95,000
		FUTURE DOLLARS	$190,000	$86,700	$26,010	$42,448	$21,649	$11,041	$0	$28,717	$46,866	$633,399	$54,855	$118,121

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Calculations & Graphs

- Opening and closing balance
- Predicted annual contributions
- Special levy
- Interest and inflation
- Approximate monthly contribution per suite
- Graph illustrating closing balance, desired minimum balance and annual contribution

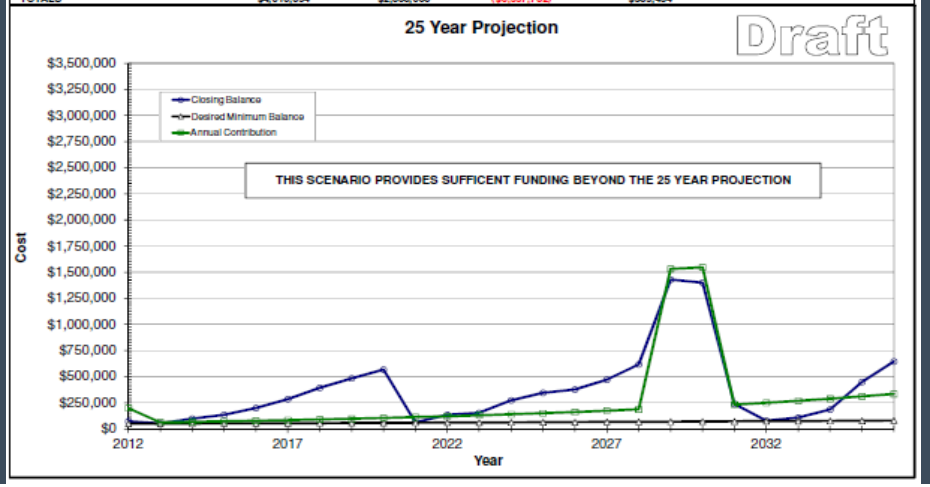
RESERVE FUND PROJECTIONS FOR

SCENARIO TWO
Initial Contribution of $59,000.
Annual Increase of 7.5% thereafter
Special Assessments Totalling $2,800,000.

For Year Ending:	2011
Date Of Study:	January 2012
Cash Flow Projection:	25 years
Interest Rate:	5.0%
Inflation Rate	2.0%

RJC Job No.:
Number of Units: 40

Year	Opening Balance	*Predicted Annual Contribution (future dollars)	Special Assessment	Expenditure Adjusted for Inflation	Interest	Closing Balance	**Approximate Monthly Contribution Per Suite to the Reserve Fund
							** not based on Unit Factors
2012	$63,700	$59,000	$140,000	$190,000	$0	$72,700	$415
2013	$72,700	$63,425		$86,700	$3,053	$52,478	$132
2014	$52,478	$68,182		$26,010	$3,678	$98,328	$142
2015	$98,328	$73,296		$42,448	$5,688	$134,863	$153
2016	$134,863	$78,793		$21,649	$8,172	$200,179	$164
2017	$200,179	$84,702		$11,041	$11,850	$285,691	$176
2018	$285,691	$91,055		$0	$16,561	$393,306	$190
2019	$393,306	$97,884		$28,717	$21,394	$483,867	$204
2020	$483,867	$105,225		$46,866	$25,652	$567,879	$219
2021	$567,879	$113,117		$633,399	$15,387	$62,984	$236
2022	$62,984	$121,601		$54,855	$4,818	$134,548	$253
2023	$134,548	$130,721		$118,121	$7,042	$154,190	$272
2024	$154,190	$140,525		$31,706	$10,430	$273,439	$293
2025	$273,439	$151,064		$93,786	$15,104	$345,821	$315
2026	$345,821	$162,394		$148,441	$17,640	$377,414	$338
2027	$377,414	$174,574		$100,940	$20,712	$471,759	$364
2028	$471,759	$187,667		$68,639	$26,564	$617,350	$391
2029	$617,350	$201,742	$1,330,000	$737,460	$17,475	$1,429,106	$3191
2030	$1,429,106	$216,872	$1,330,000	$1,612,728	$36,559	$1,399,809	$3223
2031	$1,399,809	$233,138		$1,433,745	$39,975	$239,177	$486
2032	$239,177	$250,623		$418,542	$7,761	$79,020	$522
2033	$79,020	$269,426		$245,033	$4,561	$107,967	$561
2034	$107,967	$289,626		$219,014	$7,164	$185,744	$603
2035	$185,744	$311,348		$63,076	$15,494	$449,510	$649
2036	$449,510	$334,700		$164,865	$26,721	$646,066	$697
TOTALS		$4,010,694	$2,800,000	($6,597,782)	$369,454		



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Thank You.
Questions?

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