

Condo Smarts

Headline: Allocating Expenses by Section

Topic: Sections

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Dear Condo Smarts: How do shared expenses get allocated between two sections? Our strata has a commercial and residential section and a joint budget. The commercial has 82.9% of the allocated common expenses and the commercial has the balance, 17.1%. We have used this formula since 2006, when our strata was first formed, except for the water bill. The water bill is based on a ratio that was created by the property manager, where the developer pays 22% of the water bill and the residential pays 78%. This is based on an annual estimate of use. The residential council have been asking the manager how they came up with these estimates and turns out they were allegedly provided by the developer. There must be a technical method of establishing who pays for what costs and the fairness of allocation. Amber Williams, Richmond.

Dear Readers: Amber's strata is a prime example why no one should ever take anyone's word for anything without first reviewing documentation. Before you can start, determine with the Land Title Registry what documents of unit entitlement, voting entitlement, bylaw amendments, property allocations, or any other types of covenants that may be registered on your property. When we checked the filings for Amber's strata we discovered that the unit entitlement had been applied incorrectly. They were actually using the unit entitlement that was provided in the developer's disclosure statement, and while the residential owners' portions of expenses were close, they were overpaying for common expenses of the corporation by 3.7%. Over the last 5 years the residential owners have paid \$200,000 more than they were required to pay. Here are the simple basics of allocating expenses when sections are created. The common expenses of the corporation are always the common expenses of the corporation and form part of the annual budget for the strata corporation. They are not separated on any ratios or allocations. When sections are created, allocations of expenses can be made where an expense relates solely to the strata lots in that section, *section 195 of the Strata Property Act*. Those expenses of that section then become part of the annual budget of that Section, or an expense

from the contingency reserve fund or a special levy, also of that section. It is important to remember that when the sections are created, additional legal entities were created and each section in addition to the strata corporation requires a separate annual budget and a separate annual general meeting. The water bill for example is not an apportioned or allocated expense by formula that is applied to the sections in Amber's strata. There is only the one water meter that serves the entire complex and when you factor in the water cost for the swimming pool, residential section landscaping and the residential use, it is doubtful if the formula was ever estimated correctly. To prevent confusion this is simply a common expense based on the unit entitlement of all strata lots as part of the annual budget for the corporation. There are also other expenses that cannot be divided into the sections, such as insurance which is a singular policy for the strata corporation, security and monitoring, which is a singular contract for the strata corporation, and building exterior maintenance and repairs, which is also a singular expense of the strata corporation as one building and as a common expense. Always remember to verify all of the registered documents before you attempt to manage a strata corporation or sections, and remember my mantra of all things related to real estate and strata properties, "if it isn't in writing from a reliable source, it probably isn't true, and even then, double check the facts".

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