

Condo Smarts

Headline: Depreciation report accuracy

Topic: Depreciation Reports

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Dear Tony: Our council recently put 2 items on our agenda at our annual general meeting to approve contingency funds for repairs and upgrades. One was the roofing on our 8 townhouses and the other was a scheduled upgrade to our fire safety systems in our highrise. The roofing was for \$135,000 and the fire safety upgrade was for \$22,000. Both of these items were in our depreciation report and recommended for 2018, so were passed by majority vote; however, an owner raised a very good question at the meeting. The report was last updated in 2015 so how do we know these amounts are accurate? This raised a number of other questions and proposed amendments at the meeting that related to the process for purchasing these products and services and of course, what happens if there isn't enough money approved? Our council wants to proceed with these projects, but the owners have raised some valid questions and amendments. Our property manager told us we could only approve the amount in the depreciation report. How do we proceed?

Karen Featherstone

Dear Karen: One of the significant benefits of depreciation reports, and funding the contingency reserve fund, is the Strata Corporation will only require a majority vote to approve the funds when the renewal or maintenance is recommended.

With the changes in the *Strata Property Act* the intention was to provide strata corporations with the ability to plan funding, spend funds and authorize major projects all by a majority vote. The majority vote also means the owners have the authority to make amendments to the majority vote resolutions at a general meeting. The result is that eligible voters have more authority on process, procedures and the expenses.

Major projects, regardless of the type of vote that is required, should all be treated with a high level of fiduciary responsibility. The depreciation report is an

excellent planning tool for scheduling and financial planning, but time periods affect the projections due to product and material changes and availability, building code changes, contractor availability, inaccurate calculations of project and cost implications, and delays in implementing the reports.

A good idea is to review the depreciation report annually and identify those projects scheduled within the next 5 years. Your roof, identified for renewal in 2018, is a project that should have been started in early 2017. The first funding approval, which could have been approved under consulting services in the annual budget, is for a roofing consultant/inspector to inspect the roofing condition and provide recommendations on maintenance or deficiencies and set the specifications for the planned renewal. The consultant will provide you with current market costs and an overview of the complete scope of the project. One other aspect of the consultant's work will be to advise you on the complete scope of work to avoid any duplication of future cost and work. This will form the framework on the amount you will propose to the owners for the project. The best example of this is your 8 townhouse roofs which also have 16 skylights. At 21 years old, replacing the skylights as the same time as the roofing will be the most economical choice for your strata and ensure the removal and installation will not affect your future maintenance and warranties. Also it will be a good opportunity to consider an energy upgrade to the types of windows and ventilation.

The only condition that is imposed by the *Act* is that the report **recommends** the repair, renewal or maintenance. There is no such limitation in the *Act* that limits your strata to the cost estimates established in the depreciation report. Other than estimates of when projects are due and possible costs, the depreciation report has no regulating authority over the business of the strata corporation.