

# Condominium Home Owners Association

A non-profit association serving strata owners since 1976

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## Headline: **How to Flat-line Your Mechanical Owning and Operating Costs**

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It is a well-known fact that Strata Boards and Property Managers must perform their tasks within a reasonable operations budget. This is not an easy task when you consider that there are numerous occurrences throughout the year that are difficult or impossible to anticipate. When creating and managing budgets, Strata Boards and Property Managers have a few goals in mind and they include:

- Protection of the primary asset of the Strata owners – the building and its environs.
- Managing the properties with “zero based budgeting”. At the end of the year, monies received from owners for operating the building are fully allocated with no depletion of cash reserves.
- Prevention of unforeseen special levies that wreak havoc on the owners’ personal budgets.
- No budget surprises.

One of the major costs within an operating budget is the heating, ventilation and cooling (HVAC) system. It is depended on daily for comfort and it represents a significant financial investment within a Strata. Mechanical systems are complex and require specialized skills to understand and maintain. Procrastinating about their maintenance needs can be costly. Ultimately, if not properly maintained, the heating and cooling system can be a continuous source of problems which results in unexpected emergencies and the Strata is faced with a situation of repairing or replacing heating and air conditioning that is not in the budget. If sufficient monies are not in the Contingency Fund Reserve then special levies are required to pay for these unbudgeted emergencies. Homeowners bare the brunt of the situation.

Contingency Fund Reserves can quickly be depleted when the unexpected replacement of mechanical equipment or a major component repair is needed. Sometimes the Contingency Fund Reserve isn’t large enough, and a special vote from the homeowners is required. This process can be time consuming and become quite emotional. Since the majority of the owners must agree to expend funds from the Contingency Reserve except in the case of an emergency, Boards are in the unenviable position of waiting for equipment to fail before they can authorize major repairs or replacements. Inevitably, the heating or air conditioning systems will fail during a period when it is under the highest demand; the coldest or hottest day of the year. When a cold snap or hot spell occurs and the system fails, the telephone never stops ringing for Property Managers and Board members. Speed in getting the system back up and running becomes the sole goal, rather than quality and cost effectiveness as the primary criteria for making a major investment in the building.

Marketability of lots in the Strata Corporation can be greatly affected by the resulting increase in monthly fees. When the word hits the real estate rumour mill that unforeseen costs for the Strata Corporation are above and beyond those that are normally expected, the damage is far too great to measure.

Couple the unexpected strata levies with a “marketability factor”, and the Strata Corporation can find themselves in a precarious situation. The solution is to mitigate the risk of mechanical equipment replacement and associated major component repairs. Although the solution is different for every Strata Corporation, there is one common factor: *proactive preventative maintenance on the mechanical equipment that will ultimately extend the equipment life*

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*expectancy.* As the HVAC equipment ages, it inevitably needs to be replaced. However, if not properly maintained, breakdowns and malfunctions occur earlier than the average life expectancy.

Consider the following checklist. Does your Strata Corporation:

- Perform scheduled preventative maintenance?
- Have a firm cost for annual maintenance?
- Have a source for fast, reliable emergency service?
- Set aside emergency funds for major equipment repairs?
- Have specialized in-house maintenance personnel?
- Monitor and maintain maintenance tasks?
- Stock tools, supplies and replacement parts?
- Have a refrigerant management program in place?

Typically, Strata Boards and Property Managers don't have enough time to oversee these matters comprehensively. This results in uneven heating and cooling, equipment breakdowns, operating headaches, unexpected maintenance costs, and excessive energy consumption.

To alleviate HVAC problems, pro-active preventative mechanical maintenance programs should be implemented. These programs are specifically designed to flat-line owning and operating costs through progressive agreements. An example of this type of program is the "Linc System" provided by the "Linc Contractor Network" throughout North America.

Programs such as the Linc System provide a single source solution *that takes total responsibility for the mechanical system for a fixed fee.* Because the cost is fixed, there are no surprises and no impact on the annual operating budget or Contingency Fund.

The program provides inspection and testing, preventative maintenance, repair and replacement, and emergency call response. Many Strata Corporations have found this type of program to be a successful solution in achieving budget control and eliminating risk associated with mechanical breakdowns and emergencies.

The following is an actual case study of a Strata Corporation that was experiencing high costs in maintaining their mechanical equipment, causing them to be over budget for several years in a row. On average, their equipment was ten years old. Several components had to be replaced due to breakdowns that were not anticipated, therefore these were handled as emergency service calls and premiums were paid for the repairs. The cost of doing business this way was affecting the tenants' comfort, and they realized the reactive approach was having a severe negative impact on the bottom line of their budget. The costs for operating and maintaining their equipment using reactive measures versus proactive measures are outlined in the following systems analysis:

	Owning and Operating Costs	Versus LINC Service:
Equipment replacement (to be allocated to Contingency Reserve Fund annually)	\$ 11,000	\$ 0
Contracted Services	\$ 6,000	\$ 14,570
Parts and Materials	\$ 0	\$ 0
In-House Staff	\$ 6,600	\$ 0
Administration	\$ 600	\$ 0
Major Repairs	\$ 17,000	\$ 0
TOTALS	\$ 41,200	\$ 14,570
DIFFERENCE WITH LINC SERVICE		\$ 26,630

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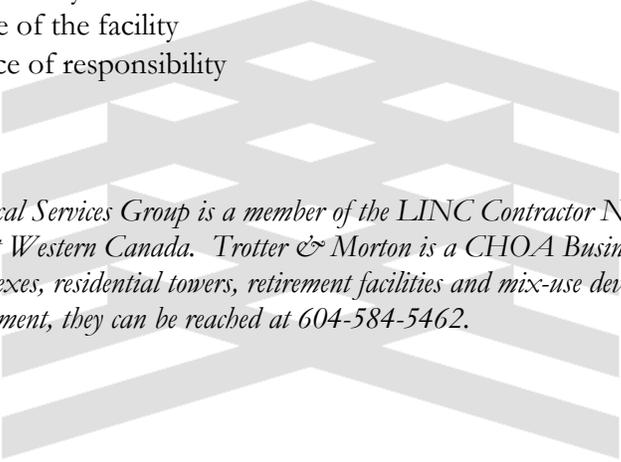
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By choosing an all-encompassing service agreement, the Strata saved 54% of their costs including operating expenses as well as capital replacement. The guaranteed amount of \$14,570 per year (with an annual increase in cost of living only) means the Board now has a guaranteed flat-line cost in their operating budget with no additional expenses for maintaining or replacing the mechanical equipment.

Implementing a proactive rather than reactive maintenance program provides the following benefits:

- Minimized loss potential
- Improved comfort
- Problem solution and avoidance
- Administrative control
- Improved maintenance methods
- Fixed budget and reduced costs for staffing, equipment repairs and energy consumption
- Improved system efficiency
- Maintaining the value of the facility
- Identifying one source of responsibility
- Reduced complaints
- Peace of mind.

*The Trotter & Morton Mechanical Services Group is a member of the LINC Contractor Network and provides proactive maintenance programs throughout Western Canada. Trotter & Morton is a CHOA Business Member and has a customer base that includes condominium complexes, residential towers, retirement facilities and mix-use developments. If you would like a service overview and survey of your equipment, they can be reached at 604-584-5462.*



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