

Do condo reserve funds hold up under scrutiny?

BYRON ARMSTRONG

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In my last article, I took a look at what could happen to a condo that fell into bad condition due to either bad financial management, or an extreme case of manmade or natural disaster.

I learned that sometimes the condominium's reserve funds can be mismanaged, so that when funds are needed for general upkeep or major overhaul, there may not be enough. How does a condo get to that place and where is the government oversight?

Outside of reserve funds (maintenance fees), can you get the kind of insurance coverage you really need to fully protect your investment against unforeseen disaster?

Gavin Douglas, the principal broker at Dream Insurance Brokers Inc, has over 20 years of property casualty insurance experience. "The trigger for an insurance policy is damage caused by an insured peril like fire for instance, which the insurance company provides coverage for according to the terms of the policy," affirms Douglas. Sounds simple enough. So just go see any old insurance agent and take the condo insurance with the best rate, right?

Not exactly.

Insurance companies pay close attention to historical data and adjust policies based on perceived trends. Prior to Toronto's recent issues with flooding, the only water damage coverage you could get was for sewer back up or flood damage.

"Most people in the city didn't buy flood coverage because we didn't see that kind of flooding before," says Douglas. After the 2013 flood in Toronto, the initial response from insurance companies was to reject sewer back up coverage.

Lawyers took the case to court and made the argument that if the sewers could handle the water back up, there wouldn't have been any flooding. Therefore, insurance companies were bound to cover the flood damages to people's homes.

According to Douglas, "Within a year of that, the insurance companies created very specific wording with regards to coverage for different types of flooding, which effectively created several different types of water damage coverage." In order to be fully covered, you would have to purchase all of them.

"Insurance policies aren't typically warranty programs that respond to wear and tear on the common elements of your build-

ing, just your independent unit," warns Douglas. Your building may have flood insurance, but without the right coverage, as an owner you may still have to cover damage with your condo's reserve funds.

How do condos come up short with their reserve funding? Sally Thompson is past-president of the Canadian Condominium Institute — Toronto and area chapter. With almost 30 years of working with condos under her belt, she specializes in reserve fund studies and performance audits.

"Condos are required to look ahead and predict what expenditures they're likely to have in relation to the major repair and replacement of the common elements," says Thompson. "They should develop a funding plan where they put money aside every year to cover those costs."

In Ontario, the condo board is supposed to plan at least 30 years ahead. However, the Condo Act allowed 15 years for condominiums to become adequately funded after the introduction of HST. According to Thompson, that kind of leeway caused some of the problem.

Thompson finds the legislation a little weak because it uses language like "adequate funding" which leaves too much wiggle room for boards who want to defer spending. "Let's say I walk into a condo today, and they have not funded adequately in the past, or spent more than they planned, and there's a large increase in the contribution needed.

The boards instinct is to protect the owners from a huge fee increase by deferring or phasing in the increase over time; but a well run condo should have the capital in the bank for future expenditures," advises Thompson. This continuous deferral of a necessary increase is how reserves become underfunded.

"Technically speaking, those reserve fund study providers aren't doing anything wrong by endorsing long phase-in periods" says Thompson, "but the lack of clarity within the condo act around how long we're allowed to phase in a required increase is an issue."

For Thompson, kicking the can down the road may feel good now, but its impact could be negative for future owners. "The board is not just representing the interests of the current owners, but they also have a responsibility for the future owners. It's not fair for them to keep the current owners fees down, when I know it's going to have an extremely negative impact on the affordability of future owners fees."

Six ways we will live more sustainably in the new year



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This year I predict we'll finally gain a 2020 perspective on sustainability (and yes, you'll soon tire of that analogy if you haven't already), by reducing our carbon footprint in response to a combination of incentives, fines and practices deemed no longer acceptable.

We'll also become more sustainable simply because we feel good doing something positive about the environment.

Here is a list of six top of mind actions and initiatives many of us will embrace this year, associated with living a more sustainable lifestyle.

1. We'll pass on single use plastics. Canada is set to ban single use plastics as early as 2021, but already, a growing number of retailers are leading the change. For instance, Sobeys announced last year that they would phase out all plastic bags by February 2020. Plastic straws and cutlery are also on our collective radar.

2. Reusable will become cool. One of the most exciting items in my 'goodie bag' from the recent COP25 conference I attended was a reusable cutlery kit made of bamboo that you can take with you on your travels. The kit even includes a reusable bamboo straw and a brush for cleaning it.

You can purchase similar kits online and you'll see them soon cropping up in local stores if they aren't already available. Reusable coffee cups and water containers have been around for some time, but this is the year many of us will religiously take them with us wherever we go. And this will lead to the growing expectation that water refilling stations should be made readily available everywhere from busy streets, to our parks, shopping malls, arenas and other public venues.

3. We'll get serious about air quality. Historically, we've always paid close attention to the weather in terms of temperature and precipitation and then as we became more aware of the perils of skin cancer, the UV index is something we've become more mindful of as well. And this year, especially if you live in a major city, you'll begin to pay closer attention to the air quality, tied to everything from vehicle exhaust to fires (whether accidental or intentional) to yard equipment.

Environment Canada already posts an air quality index for cities across the country and other weather channels and websites are beginning to provide more details on air quality as well. As consumers, we'll think twice about burning fires in our own back yards, even if it's legal, because of how it impacts on ourselves and our neighbours. And many communities will get serious about cracking down on unnecessary idling, imposing fines versus looking the other way.

4. We'll electrify our lifestyle. In keeping with doing our part to help clear the air, Transport Canada already has incentives in place for the purchase or rental of electric, zero emission vehicles. Consistent with this mindset, even without incentives, more of us are purchasing electric lawnmowers and snowblowers due to significantly improved performance. As well, the combined benefits of better air quality (including not having to breathe in the toxic exhaust while cutting the grass or clearing the snow) and convenience (e.g. not having to make a special trip to buy gas when your machine runs out).

5. We'll hold onto our electronics longer. Despite the best efforts of cell phone companies and personal electronics manufacturers, we'll recognize that maybe it's not such a bad idea to keep perfectly good products longer, versus discarding them for 'product upgrades' that often really don't matter that much. You'll save money and fewer electronics will end up in landfill sites.

6. We'll buy less and share more. We'll do a better job of sharing our books, tools, yard equipment and even clothes with friends, neighbours and local charities. And instead of putting all of the time and effort into organizing yet another yard sale that attracts patrons that want to way give you next to nothing for perfectly good stuff, many of us will come to the realization that it's more impactful and much easier to simply gift these items to a needy cause.

We will see things more clearly this year and through the 2020's, living more sustainably, because we all stand to benefit from these actions. And much of the good that we do, will take place on the home front.

Mark Wessel lives in Collingwood, Ont., and is a passionate advocate for living more sustainably at home and in the greater community. Visit his blog at www.sustainablebuildercommunity.com.



Included in a recent UN Climate Change Conference (COP25), this 'goodie bag' was a reusable cutlery kit complete with knife, fork, spoon, chopsticks and a straw (all made of bamboo) to help reduce our use of single use plastics. Over the coming year, expect to see more products like this in stores and online.