

Reserve Funds

BACKGROUND

Condominium corporations are required to put money aside in a reserve fund that will be used to pay for major repairs and replacement of common property. The reserve fund does not cover yearly maintenance.

Quality Reserve Fund Studies

Reserve fund requirements are set out in law. The costs of the repairs and replacements are determined by a reserve fund study done by law every five years. The study has to be done by a qualified person, who identifies major repairs and replacements that will be needed in the next 25 years. The condominium board then makes a reserve fund plan that states how much money is needed and how the corporation will raise that amount.

Corporations require accurate reserve fund studies to make sure they know how much money to set aside in their reserve funds. Some rules for reserve fund studies are set out in law, but these requirements are limited.

The study must be done by a qualified person. A “qualified person” is a person who knows about the type of property to be included in the study, how to operate and maintain that property, and the costs to repair or replace it. There are no requirements for the person to have specific education or experience, though, and it is up to the corporation to decide who they feel meets the definition.

The definition of what must be included in the study is also very broad. The study must list an inventory of common property and managed property, along with that property’s condition. The study must note the estimated costs to repair or replace the inventory, and how long the property is expected to last after the repair is done. There is no rule about what method must be used to complete the study. This means different studies may reach different results, depending on the property included and methods used.

Albertans have suggested some ways to improve reserve fund studies, including:

- Require a person have minimum education or professional experience to do a reserve fund study.
- Have more specific content requirements for a study.
- Require the reserve fund study to be done using certain methods.

Timing of the First Reserve Fund Study

A condominium’s first reserve fund study must be done within two years from the day the condominium plan was registered with the Land Titles Office. This can leave a very limited time for the first elected board to do the study as the plan could be registered before construction is completed and the board may not be elected for a year or more.

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Condominium boards have said it would be better to base the first reserve fund study on a different date, rather than the registration of the condominium plan. For example, the reserve fund study could be done a certain time after the first annual general meeting, or a certain time after the first unit is turned over to a buyer.

Reserve Fund Funding Models

The reserve fund report, which the qualified person writes after the study is completed, must state how much money is currently in the reserve fund. The report must recommend how much money to add to the fund to pay for upcoming repairs. The report does not have to recommend a funding model, however, and the corporation must decide how to make sure they have enough money in the reserve fund to cover the upcoming costs.

Several funding models exist, such as putting enough money in the reserve fund to cover all upcoming repairs for the next 25 years, or putting in enough to cover expenses under the current 5 year reserve fund plan plus a bit extra for emergencies. Not all corporations may be aware of these options, though they may hire an accountant or financial adviser who can tell them about the different models.

Some provinces require reserve fund studies to include a listing of possible funding options for the corporation to decide what works for them, or require the reserve fund report to recommend a funding model.

Uses of the Reserve Fund

Reserve funds can only be used for specific expenses allowed by law. The reserve fund is meant to pay for major repairs or replacement of common property, managed property, and other property owned by the corporation.

Money from the reserve fund can also be used to pay for the reserve fund study and report, for a study of the condition of the property or building, or for work that is needed to comply with legal standards. Improvements to the building can be paid out of the reserve fund, but only if the owners have agreed through a special resolution, and as long as there will be enough money left in the fund to pay for the repairs listed in the reserve fund report.

Albertans have told us other uses of the reserve fund should be considered. For example:

- Payment of deductibles for insurance claims for damages to the common property
- Energy efficiency upgrades intended to save the corporation money.

British Columbia lets the reserve fund be used to pay for any unusual common expense if the expense is approved by special resolution.

If You Have More Feedback

If you have some thoughts or comments you would like to provide after the Open House, please feel free to write down your feedback and send it to us:

Email: condoreview@gov.ab.ca

Mail: Condominium Project Team
Service Alberta
3rd Floor – 10155 102 Street
Edmonton AB T5J 4L4

For More Information

condo.alberta.ca

Service Alberta Contact Centre
1-877-427-4088

Response Form

For each question below, please note the option(s) you like most by checking the box next to the question and the one(s) you like least by crossing them out. You can also suggest your own option.

How can we improve the quality of reserve fund studies?

- Require someone to have certain educational credentials, certifications, or experience before they can complete a reserve fund study.
- Add more detail to the contents required in the reserve fund study and set out specific methods that the person doing the study must use.
- Require the reserve fund report to include examples of funding models for reserve funds.
- What other option(s) could address this issue?

Should the corporation be able to use the reserve fund to pay other types of expenses? If so, what types of expenses should be payable from the reserve fund?

- Insurance deductibles for claims related to damage to the common property.
- Energy efficiency upgrades, such as high efficiency windows.
- Any other amount approved by special resolution.
- What other option(s) could address this issue?

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What other considerations should we keep in mind about reserve funds, based on your experiences?
