



CAO Best Practices Guide: Ensuring Healthy Reserve Funds



Condominium
Authority of
Ontario

www.condoauthorityontario.ca

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Have a Question?

If you have a question about any of the information in this Guide, please contact us. We have a team available to answer any questions you may have.

This guide may be updated from time to time. You can access the most up-to-date version on the CAO website.

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CAO would like to acknowledge the significant contributions of the members of our advisory panels.

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Introduction

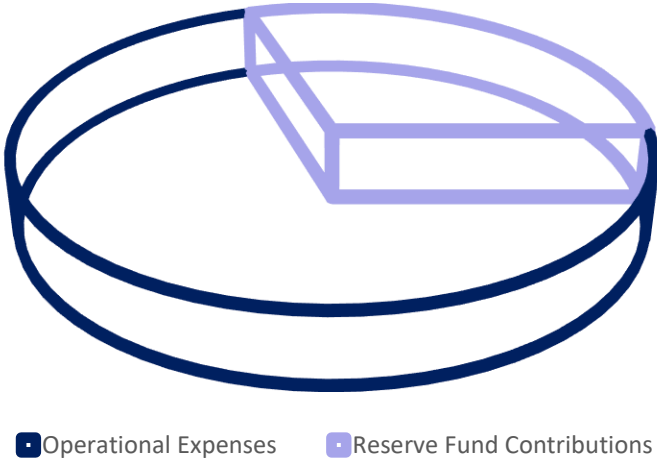
Under [section 115 \(2\)](#) of the *Condominium Act, 1998* (the “Condo Act”), each condominium corporation in Ontario must maintain two types of accounts – general and reserve fund accounts. A condominium corporation may have one or more accounts of each of these types¹. This Guide was developed by the Condominium Authority of Ontario to help owners and directors understand the importance of reserve funds.

The reserve fund serves an important function in making sure that the property is structurally sound, and that the condominium corporation is financially secure. Condominium owners trust that their condominium board will manage one of their greatest financial investments with care, and that their common expenses fees will ensure the health and well-being of their homes. For this reason, management of the reserve fund is a critical role that the condominium board plays.

A reserve fund is a distinct fund maintained by the condominium corporation that can only be used for the purpose of major repair and replacement of the common elements and assets of the condominium corporation (“major repairs and replacements”). This means that the reserve fund cannot be used for any alterations or improvements to the condominium corporation’s common elements.

A reserve fund can be likened to a savings account that a family might use for emergencies or planned expenditures related to the upkeep of their home. However, the contributions to the reserve fund are mandatory, as [section 93 \(4\)](#) of the Condo Act requires the condominium corporation to collect contributions to the reserve fund from the owners as part of their common expenses fees.

Figure 1. Example Components of Monthly Common Expenses Fees



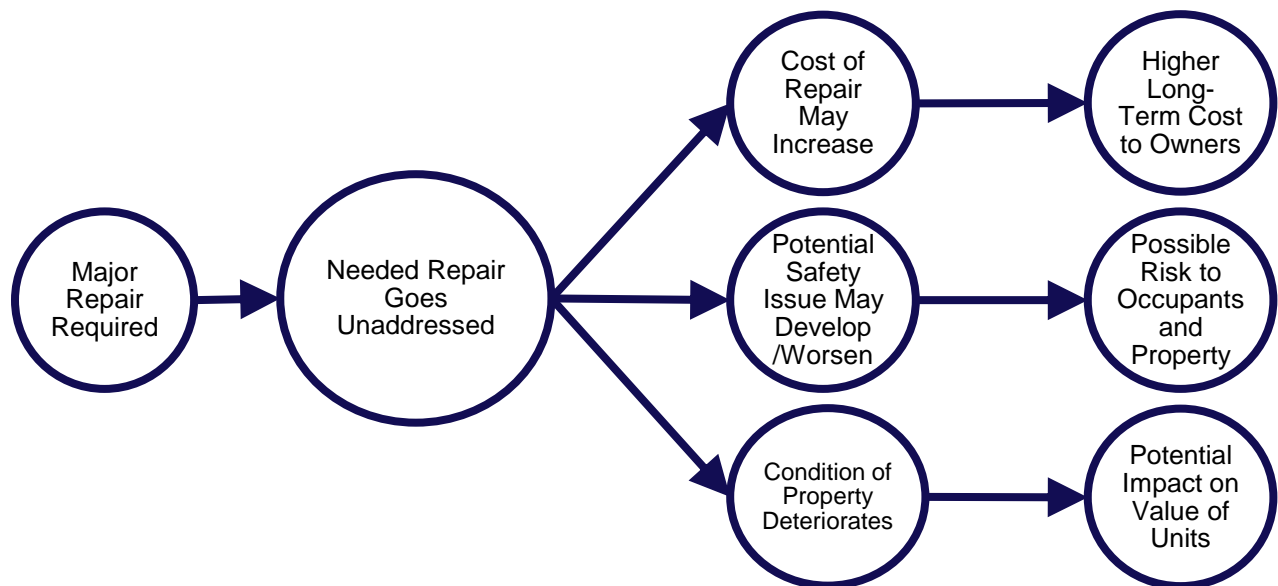
¹ Note: For the purposes of this Guide, reference will be made to a single reserve fund account.

***Note: the proportions in this diagram are an example only, and do not constitute recommended or ideal proportions for the different components of common expenses fees.**

An important concept behind a reserve fund is that all owners must contribute to the future repairs and maintenance of the common elements. Even owners living in newly built condominium corporations that are unlikely to need major repairs or replacements for some time must still contribute to the reserve fund for the eventual repair or replacement of the common elements.

Failing to conduct necessary major repairs and replacements could result in the common elements degrading to the point of diminishing the overall value of the condominium corporation, or more seriously, to the point where they may no longer be safe for the owners and residents. For an illustration on how postponing needed reserve fund projects may cause issues for the condominium corporation, see Figure 2 below.

Figure 2. Potential Outcomes of Postponing Needed Reserve Fund Projects



Reserve Fund Basics

As mentioned previously, the reserve fund is funded via the common expenses fees that owners pay to the condominium corporation. The amount they pay must be the amount that is reasonably expected to provide sufficient funds for the major repair and replacement of the common elements and assets of the condominium corporation. This is calculated on the basis of the expected repair and replacement costs and the life expectancy of the common elements and assets of the condominium corporation. This amount would be determined by the reserve fund study and the plan for future funding.

A new condominium corporation must conduct a reserve fund study within the year following the registration of the declaration and description. For the first year of operations of the condominium corporation, the declarant is responsible for preparing the budget and establishing the contributions to the reserve fund.

Prior to the first reserve fund study and the implementation of the plan for future funding, the amount that must be contributed to the reserve fund must be the greater of the following:

- 10% of the operating budget for the condominium corporation
- The amount (based on the reserve fund study but prior to the implementation of a plan for future funding) reasonably expected to provide sufficient funds for the major repair and replacement of the common elements and assets of the condominium corporation.

Minimum Balance

The minimum balance of the reserve fund is the minimum amount required for the reserve fund at any point, and is determined as part of the reserve fund study's financial analysis under [section 29 \(3\)](#) of Ontario Regulation 48/01 (O. Reg. 48/01). This is because although the reserve fund study will prepare for future major repairs and replacements, there is always a chance that the condominium corporation may have an emergency which requires the condominium corporation to go below their minimum balance, such as a premature failure of a major piece of equipment. The amount will be recommended by the reserve fund study provider ("RFS provider") and will depend on the size of the condominium corporation and other factors. For instance, larger condominium corporations may need a larger minimum balance whereas smaller condominium corporations will typically not require as much.



A large reserve fund does not always mean the condominium corporation is in good financial standing. In practice, the amount in a condominium corporation's reserve fund will fluctuate depending on the major repairs and replacements being conducted by the condominium corporation. The health of a condominium corporation's reserve fund should not be judged from one point in time, but rather in its consistent ability to fund expected and unexpected major repairs and replacements.

1 Reserve Fund Studies

Introduction to Reserve Fund Studies

[Section 94 \(1\)](#) of the Condo Act requires condominium corporations to conduct periodic studies to determine whether the amount of money in the reserve fund and the contributions to the reserve fund collected by the condominium corporation are adequate to provide for the expected costs of major repairs and replacements over time.

The reserve fund study can be compared to a plan that a homeowner may create to adequately save for the costs of keeping their home in good repair. It is important to note that the reserve fund study is only ever able to provide an estimate of future costs and may be an under-estimation of repair and replacement costs as unexpected expenses may arise.

There are three types of reserve fund studies:

- A comprehensive study (**class 1**);
- An updated study with a site inspection (**class 2**); and
- An updated study without a site inspection (**class 3**).

The first type of reserve fund study each condominium corporation is required to have completed is referred to as a comprehensive, or **class 1**, reserve fund study. This requires the RFS providers to physically visit the property to examine the common elements and assets as well as conduct a review of records and hold interviews with the directors, employees and agents of the condominium corporation.

This reserve fund study establishes at least a 30-year timeline to be used for the projections. It is important to note that the 30-year timeline is a legislated minimum, and it may be beneficial for the condominium corporation to request that the RFS provider create a timeline of 45 years or longer. As best practice, condominium corporations should work with their RFS provider to determine what timeline will work best for them.

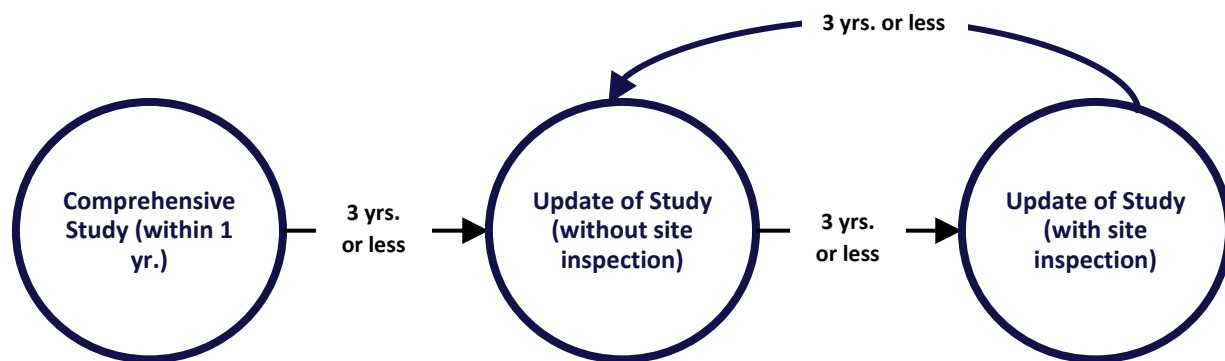
Reserve fund study updates are divided into two classes and are referred to as **class 2** and **class 3** studies. A **class 2** reserve fund study includes a site inspection and many of the requirements of the comprehensive study. A **class 3** reserve fund study does **not** include a site inspection but does involve a review of records and interviews with the directors, employees, and agents of the condominium corporation.



A condominium corporation must complete a class 1 study within the first year following the registration of the declaration and description. After the first class 1 study is done, the class 3 and 2 studies are done on an alternating basis at least every three years.

For a breakdown of what types of reserve fund studies condominium corporations must complete and the timeframe they have to complete them, please see Figure 3 below.

Figure 3. Required Types of Reserve Fund Studies



Contents of a Reserve Fund Study

Reserve fund studies are very important documents with specific content requirements under the Condo Act and its associated regulations. Reserve fund studies consist of both a physical analysis and a financial analysis. [Sections 29 \(2\) and 29 \(3\)](#) of O. Reg. 48/01 requires each type of analysis to include a specific set of items as outlined below:



A “component inventory” is an inventory of each item of the common elements and assets of the condominium corporation that is expected to require a major repair or replacement within at least 30 years of the date of the reserve fund study, where the cost of replacement is at least \$500.

Requirements for the Content of a Physical Analysis	Requirements for the Content of a Financial Analysis
<ul style="list-style-type: none"> • The component inventory of the condominium corporation; and • An assessment of each item in the component inventory that states: <ul style="list-style-type: none"> ○ Its actual or estimated year of acquisition; ○ Its present or estimated age; ○ Its normal expected life; ○ Its remaining life expectancy; ○ The estimated year for its major repair or replacement; ○ Its estimated cost of major repair or replacement as of the date of the study; and ○ The percentage of that cost of major repair or replacement to be covered by the reserve fund and the adjusted cost resulting from the application of that percentage. 	<ul style="list-style-type: none"> • A description of the financial status of the reserve fund as of the date of the study; and • A recommended funding plan projected over a period of at least 30 consecutive years, beginning with the current fiscal year of the condominium corporation, that shows the minimum balance of the reserve fund during the period and, for each projected year: <ul style="list-style-type: none"> ○ The estimated cost of major repairs and replacements based on current costs for the year in which the study is conducted; ○ The estimated cost of major repairs and replacements at the estimated time of the repair or replacement based on an assumed annual inflation rate; ○ The assumed annual inflation rate; ○ The estimated opening balance of the reserve fund; ○ The recommended amount of contributions to the reserve fund, determined on a cash flow basis, that are required to offset adequately the expected cost in the year of the expected major repair or replacement of each item in the component inventory; ○ The estimated interest that will be earned on the reserve fund based on an assumed annual interest rate; ○ The assumed annual interest rate; ○ The sum of the recommended amount of contributions to the reserve fund, and the estimated interest that will be earned on the reserve fund based on an assumed annual interest rate;


	<ul style="list-style-type: none"> ○ The increase, if any, expressed as a percentage, in the recommended amount of contributions to the reserve fund over the recommended amount of contributions for the immediately preceding year; and ○ The estimated closing balance of the reserve fund.
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Who Can Conduct Reserve Fund Studies

It is important to note that reserve fund studies are not completed by the condominium board or a condominium manager, but rather specific qualified professionals who have expertise in conducting reserve fund studies.

Individuals Who Can Conduct a Reserve Fund Study	Individuals Who Cannot Conduct a Reserve Fund Study
<ul style="list-style-type: none"> • Members of the Appraisal Institute of Canada holding the designation of Accredited Appraiser Canadian Institute. • Persons who hold a certificate of practice within the meaning of the <i>Architects Act</i>. • Members of the Ontario Association of Certified Engineering Technicians and Technologists who are registered as certified engineering technologists under the <i>Ontario Association of Certified Engineering Technicians and Technologists Act, 1998</i>. • Members of the Real Estate Institute of Canada holding the designation of certified reserve planner. • Persons who hold a certificate of authorization within the meaning of the <i>Professional Engineers Act</i>. • Graduates of Ryerson University with a Bachelor of Technology 	<ul style="list-style-type: none"> • An individual who does not meet the qualifications listed in the left column. • A director, officer, or condominium manager of the condominium corporation. • A person who directly or indirectly, has an interest in, <ul style="list-style-type: none"> ○ A contract or transaction to which a director or officer of the condominium corporation is a party in a capacity other than as a director or officer of the condominium corporation, or ○ A proposed contract or transaction to which a director or officer of the condominium corporation will be a party in a capacity other than as a director or officer of the condominium corporation;

<p>(Architectural Science) — Building Science Option or Architecture Option.</p> <ul style="list-style-type: none"> • Members of the Canadian Institute of Quantity Surveyors holding the designation of professional quantity surveyor. • Members of the Association of Architectural Technologists of Ontario holding the designation of architectural technologist, architecte-technologue or registered building technologist under the <i>Association of Architectural Technologists of Ontario Act, 1996</i>. 	<ul style="list-style-type: none"> • The spouse or child of a director or officer of the condominium corporation or the child of the spouse of a director or officer of the condominium corporation; • An owner as defined in the Condo Act in relation to the condominium corporation. • A person who lives on the condominium corporation property.
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The RFS provider must also have liability insurance that is valid at the time when the reserve fund study is completed and is kept valid for at least three years afterward. The RFS provider must provide a certificate of the policy of liability insurance to the condominium corporation upon request.

Plans for Future Funding

[Section 94 \(8\)](#) of the Condo Act requires that, within 120 days of receiving a reserve fund study, the condominium board must review the reserve fund study and propose a plan for the future funding of the reserve fund that they determine will ensure that the reserve fund is adequately funded.

[Section 94 \(8\)](#) also states that the plan for future funding must ensure that the reserve fund is adequately funded by the fiscal year following the fiscal year in which the reserve fund study was completed. In some cases, this may mean the condominium board will have to increase contributions to the reserve fund to reach this goal.

Although the RFS provider will supply the condominium corporation with a funding plan as part of the reserve fund study, condominium corporations are not required by the Condo Act to follow these suggestions. However, condominium boards should be cautious in choosing to differ from the advice of professionals and experts.

Notice of Future Funding

Within 15 days of proposing a plan for future funding, the condominium board must send the owners a notice (called a notice of future funding) containing a summary of the reserve fund study, a summary of the proposed plan for future funding, and a statement indicating the areas, if any, in which the proposed plan for future funding differs from the reserve fund study.

Importantly, this notice is not an ad hoc document created by the condominium board, but rather a specific form that the condominium corporation is required to use under the Condo Act. The notice of future funding generally contains the following:

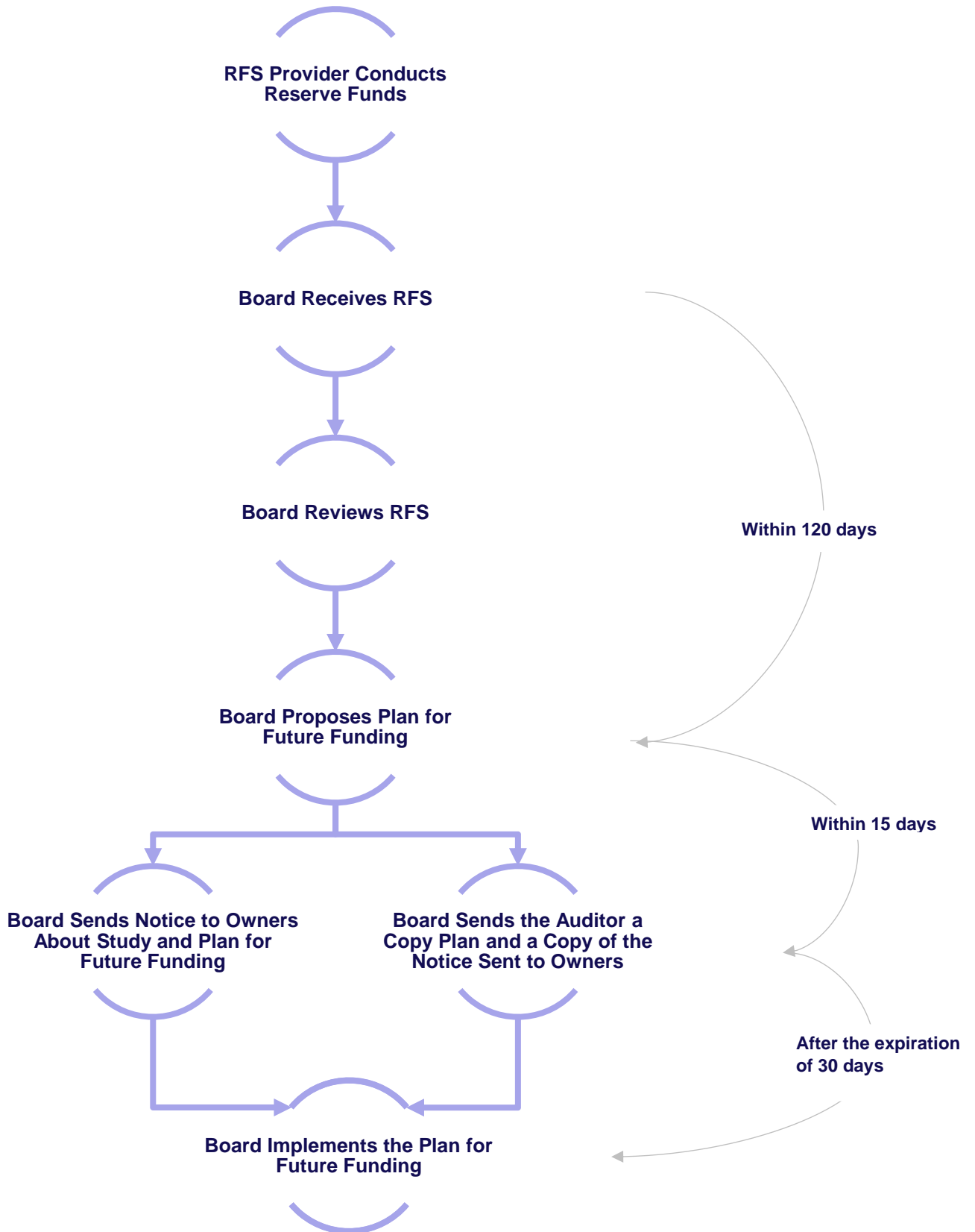
- A statement setting out the name of the condominium corporation;
- An indication of which owners are entitled to receive the notice of future funding;
- An overview of the contents of the form of the notice of future funding;
- A statement that the condominium board has reviewed the reserve fund study;
- A summary of the reserve fund study;
- A summary of the plan for future funding of the reserve fund;
- A statement of the date on which the plan for future funding will be implemented; and
- Any other information relating to the reserve fund study or proposed plan for the future funding of the reserve fund that is necessary for administrative purposes.

The required notice of future funding form can be found on the CAO's website by clicking [here](#).

Additionally, the condominium board must send to the auditor a copy of the reserve fund study, a copy of the proposed plan for future funding, and a copy of the notice that was sent to the owners. After this is complete, the condominium board must implement the proposed plan for future funding after the expiration of 30 days following the day on which the condominium board issues the notice of future funding and sends the required documents to the auditor.

For an overview of the process, please see Figure 4 below.

Figure 4. The Reserve Fund Study Process



Best Practices for Ensuring a Healthy Reserve Fund

Ensuring a Healthy Reserve Fund for All Condominium Corporations

There is no one-size-fits-all approach to reserve funds and reserve fund studies. Several factors are used to determine what a healthy reserve fund will look like for a specific condominium corporation, and every condominium corporation is different. Some things to consider when assessing the needs of your condominium corporation include:

- What is the size (number of units) of your condominium corporation?
- What is the building structure of your condominium corporation (e.g., high-rise buildings, townhouses, etc.)?
- What is the age of your condominium corporation?
- What are the components of your condominium corporation? (e.g., building foundations, shared facilities, parking lots, driveways, balconies, rooftops, swimming pools).
- What is the financial standing of your condominium corporation?
- Are you self-managed or managed by a condominium manager?
- How experienced is your condominium board with reserve funds and reserve fund studies? Is your condominium corporation conducting its first reserve fund study?

Condominium corporations and owners who are unfamiliar with the reserve fund study requirements may be inclined to compare reserve fund balances, common expenses fees, special assessment amounts, and other costs with other condominium corporations. While it may be beneficial to seek guidance from other condominium corporations to learn about the reserve fund study process or to find an RFS provider, it is not advisable for condominium corporations to compare plans for funding their reserve funds without considering their structural and financial differences.

For example, condominium corporations with greater structural risk factors such as older and larger condominium corporations will need to keep a higher reserve fund balance than condominium corporations with fewer risk factors. Condominium corporations also vary in their financial standing. Some may need greater increases to their common expenses fees or larger special assessments than others to make up for gaps in their reserve fund.

Risk Factors

The age and the components of the condominium corporation are used to determine the timelines and the costs of the repair and replacement projects that will need to be covered by the reserve fund. Certain components of a condominium corporation may pose higher financial and safety risks if they are not properly maintained.

Some examples of risk factors include:

- Having four or more stories in height;
- Suspended structural slabs that support parking, driveways or landscaping; and
- Buildings with balconies, other than wood balconies, that are fully exposed.

Careful attention is needed when assessing condominium corporations with risk factors to ensure that the reserve fund is adequately funded for their regular upkeep and emergency repairs. The quality of these assessments is key to assuring the long-term safety and financial security of the condominium corporation and its owners.

For more information on risk factors, please speak to your RFS provider.

Condominium Governance and Management

It is common for condominium boards, especially those of large condominium corporations, to delegate many of the responsibilities of the reserve fund to their condominium managers. Although condominium managers can be very helpful in this area, it is a best practice for condominium boards to be actively involved in managing their reserve funds and providing input to the RFS provider.

Condominium managers often manage multiple condominium corporations so they can be a good resource for condominium boards who are unfamiliar with reserve funds. They may have a great deal of experience in this area, so they can help by answering general questions, preparing required forms and notices, and communicating with owners about reserve funds.

Finding the Right RFS Provider

If your condominium corporation is looking for an RFS provider, you can try any of the following sources to find potential candidates:

- Ask your condominium manager, lawyer, or other service provider if applicable. These individuals may have a list of recommended RFS providers.

- Ask other condominium boards for referrals. Your condominium manager or lawyer may be able to connect you with condominium boards that have similar situations. You can also ask these individuals if there are director groups in your area that you can join. When asking other condominium boards for referrals, consider the following questions:
 - o What was the condominium board's experience with the RFS provider?
 - o Did the condominium board experience any issues when working with certain RFS providers? If so, what lessons could they share?

Once you have reliable access to potential RFS providers, it is best practice to choose at least three RFS providers to request a proposal and interview. This is to make sure that the condominium board has multiple options available to select an RFS provider that best suits the needs of the condominium corporation. Condominium boards should also review their governing documents (i.e., declaration, by-laws, rules), policies, management agreement(s), and any other documentation outlining their procurement practices and procedures. For more information regarding procurement, please see the [CAO Best Practices Guide: Procurement](#).

When narrowing down the list of potential RFS providers, condominium boards may consider the following:

1) Requesting and Reviewing Proposals

It is common practice to request a proposal from each potential RFS provider which outlines the services that they can provide and the estimated costs. It is a best practice for condominium boards to request proposals from their potential RFS providers months in advance to allow the condominium board sufficient time to review the proposals, interview the candidates, and prepare for the reserve fund study. An RFS provider's proposal usually involves a sample of the quality and detail of their work, so it is a good idea to review the proposals carefully.

2) RFS Provider Qualifications

In general, there are two types of RFS providers:

1. A single individual who does the site inspection, communicates directly with the condominium board, and writes the report.
2. A firm where multiple individuals are involved in the reserve fund study process.

Your condominium board should think about what qualifications they want their RFS provider to have (e.g., P. Eng. certification for professional engineers, certain number of years of experience, experience with similar types of condominium corporations, etc.) and whether they prefer to work directly with one person or with a firm.

3) Peer Review Process

In the engineering profession, it is usually a best practice for a reserve fund study to be peer reviewed by at least one senior engineer. This practice is referred to as a peer review process. A peer review process provides a degree of safety for the condominium corporation by assuring that the assumptions and cost estimates made by the RFS provider are reviewed by a second set of eyes for accuracy.

It is advisable for condominium boards to determine in advance if they would like their RFS provider to have a peer review process in place to conduct their reserve fund study. If that is the case, condominium boards may wish to ask potential RFS providers about this process while conducting interviews as outlined below.

4) Interviewing Potential RFS Providers

It is a best practice that condominium boards interview at least three potential RFS providers for a chance to ask questions about how they plan to conduct the reserve fund study for their specific condominium corporation.

To make sure that all your concerns are addressed, you may want to prepare a list of questions ahead of time to ask potential RFS providers. Your question list may include some of the following:

- Do you have experience with the same size of condominium corporation (e.g., similar number of units)?
- Do you have experience with the same type of condominium corporation (e.g., townhouse or high-rise)?
- Do you have experience with the unique features of the condominium corporation (e.g., heritage buildings, buildings with awnings, amenities like an outdoor pool, underground or above-ground parking, high-risk structures, etc.)?
- How do you develop budgets?
- How do you handle contingencies on projects?
- How do you budget for engineering and soft costs?
- Are the budgets you plan to develop for my condominium corporation specific to my condominium corporation or do they use standard unit rates that you would apply to any buildings?
- How do you customize the reserve fund study for my condominium corporation?
- What is the experience of the person who will be conducting the site inspection?
- Do you have a peer review process of the reserve fund study in place?
- Would you be willing to meet with the condominium board to explain the reserve fund study report and answer any questions we may have?
- Would you be willing to attend an owners' meeting where we discuss the reserve fund study with owners to answer any questions that owners may have?

Additionally, many condominium corporations hire the RFS provider who conducted their reserve fund study to assist with the repair and replacement projects identified in the study. If your condominium corporation plans to do this, you may want to include questions in your interviews about how the RFS provider plans to manage future construction projects. For example:

- What project management strategies do you plan to use for future construction projects?
- How do you make sure that construction projects are on time, on budget, and within specifications?

Communications with Owners

The reserve fund and reserve fund study are crucial to the long-term safety and financial well-being of the condominium corporation. Therefore, it is a best practice for owners to be educated and frequently updated about the results of reserve fund studies, the health of their reserve fund, and how their reserve fund is being managed.

In order to implement communications with owners regarding these issues, condominium corporations should consider the following requirements and best practices:

1) Holding Meetings to Discuss the Reserve Fund

- The condominium board may hold an owners' meeting and invite the RFS provider to attend (and possibly the auditor and lawyer, if applicable) to explain the reserve fund study, how frequently reserve fund studies are conducted, what kind of reserve fund studies are conducted, etc., and answer owners' questions directly.
- It may be beneficial for the owners to hear the results of the reserve fund study and its implications from a third-party professional like the RFS provider, especially if the results may mean an increase to the common expenses fees or a special assessment.
- Condominium boards should be aware of their condominium corporation's composition so they can tailor their communication accordingly (e.g., have a translator present at meetings if owners would find this helpful, and providing notices in multiple languages).
- **Note:** As with any other owners' meeting, the condominium board must call and hold the meeting in accordance with the requirements of the Condo Act such as sending notices of meeting on time, taking minutes at the meeting,

and following the condominium corporation's by-laws. For more information about the requirements to hold owners' meetings, click [here](#).

2) Sending Notices

- Condominium boards are required by the Condo Act to send Periodic Information Certificates (PICs) with information about the reserve fund to owners twice a year (within 60 days of the end of the first quarter and 60 days of the end of the third quarter of the condominium corporation's fiscal year). PICs must include the:
 - Current balance in the reserve fund;
 - Balance in the reserve fund at the beginning of the current fiscal year;
 - Amount of the annual contribution to be made to the reserve fund in the current fiscal year, according to the budget;
 - Amount of the anticipated expenditures to be made from the reserve fund in the current fiscal year, which is calculated in accordance with the budget of the condominium corporation for that same fiscal year; and
 - Current plans, if any, to increase the reserve fund according to the plan for future funding.
- It is also best practice for the condominium board to be transparent with owners about the reserve fund balance and reserve fund spending whenever they make any expenditures from the reserve fund. Although condominium boards are required to provide this information via the Periodic Information Certificate (which is sent out twice per year), as a best practice, condominium boards should try to provide this information to their owners as soon as possible. The condominium board can do this in multiple ways, such as sending out regular newsletters to owners.
- Owners may find it difficult to interpret the notices that they receive regarding the reserve fund (e.g., the notice of future funding). Although some of these notices must be sent out in the format specified in the regulations of the Condo Act, condominium boards can choose to send additional notices with the information written in more plain language for the owners.

3) Communicating with Owners Regarding Future Projects

- The condominium board can be creative and find different ways to illustrate to owners the options regarding different reserve fund projects. When describing timelines, owners might understand a diagram or a flowchart more than a list of dates. For example, when describing the options for major structural and decorative work to the main lobby of the condominium corporation, instead of only listing the changes, the contractor may be able to provide visuals which show the impact of different colours of new paint and tiles.

- Once the condominium board has chosen the most appropriate option for the project, they may wish to communicate this with owners directly along with information about what owners can expect and a timeline for when different phases of the project will be completed. This can be done in different ways such as newsletters or notices posted around the building. Throughout the project, the condominium board can communicate any updates such as a change in timeline or the location of workers.

4) Anticipating Owners' Concerns

- Although the condominium board does not need the consent of the owners to make an expenditure out of the reserve fund, it is important to communicate and manage expectations with owners ahead of time about the possibility of a special assessment or increase to the common expenses fees because of the results of the reserve fund study. This practice will assist the condominium board with anticipating and addressing owners' concerns in advance.
- The condominium board may manage expectations ahead of time by inviting owners to contact the condominium board or condominium manager, if applicable.
- Some owners may object to certain repair and replacement projects because they themselves do not use the amenity to be repaired (e.g., the gym). To address these concerns, the condominium board can remind owners that the responsibility for funding the reserve fund is collective and falls upon all owners. In addition, a properly maintained building is in the interests of all owners for other reasons including the resale value of their unit.
- In some cases, owners may disagree with the repair and replacement timelines of the reserve fund study and ask the condominium board to repair or replace a component ahead of schedule (e.g., a patio). A possible solution is to discuss the feasibility of an earlier timeline with the RFS provider, provided that the owners understand that a special assessment to cover some of the costs of the project may be necessary.

Condominium Board Responsibilities in the RFS

Sufficient condominium board preparation helps avoid delays in the reserve fund study process, improves the condominium board's understanding of the financial situation of the condominium corporation, and helps to ensure that the unique concerns of the condominium corporation are addressed by the RFS provider. Overall, it enables the reserve fund study to be conducted smoothly and with sufficient care to ensure that the condominium corporation's reserve fund is well funded.

There are several steps that condominium boards can take to be more prepared for an upcoming reserve fund study. Condominium boards should discuss what kind of preparation is appropriate in their specific context and the timelines involved in advance of the reserve fund study.

Preparing Incoming Directors

New directors can sometimes struggle to become familiar with the condominium corporation's history of reserve fund studies. Whenever a new director is onboarded to the condominium board, the existing directors should take the time to inform them about the financial position of the condominium corporation.

The condominium board should also establish a process for relaying all necessary financial information and information about the reserve fund to incoming directors. This can help ensure that new directors on the condominium board understand the reserve fund and reserve fund study implications for the condominium corporation.

Having familiarity with reserve funds or other related professional background can help directors understand the reserve fund study process and the needs of the condominium corporation. Therefore, condominium boards can also seek out owners with relevant professional backgrounds (e.g., engineering, insurance, accounting) to run for the condominium board.

Gathering Relevant Documents for the RFS Provider

Before the reserve fund study is conducted, the condominium board should prepare relevant documentation that the RFS provider will need to conduct the study. This could include the condominium corporation's governing documents, previous reserve fund studies, plans for future funding, and the financial records of the condominium corporation.

A common roadblock in the reserve fund study process is lack of clarity regarding the interpretation of provisions in the declaration, particularly when it comes to repair and maintenance obligations. This may cause delays, and the condominium board should seek clarification on any unclear provisions in its governing documents in advance so that they are able to answer the RFS provider's questions. Clarifying these obligations for the RFS provider may prevent a situation where the reserve fund study assumes that a repair is the responsibility of the owner, when it is in fact the responsibility of the condominium corporation. Such a misunderstanding can mean that the reserve fund study underestimates or overestimates future costs to the condominium corporation.

Additionally, [section 98](#) agreements and electric vehicle charging system (EVCS) agreements that the condominium corporation has entered into with individual owners can also impact reserve fund cost considerations and should be gathered and explained to the RFS provider. These agreements allow owners to make changes to the common elements (e.g., building a deck behind their unit on the common elements) or to install an EVCS in the common elements and specify the repair and maintenance obligations associated with the changes. In addition, records related to shared facilities agreements (also known as mutual use agreements) with other condominium corporations should be made available to the RFS provider. It is important that the condominium corporation's repair obligations are made clear to the RFS provider.

If there is any uncertainty about the interpretation of the declaration or any section 98 agreements, EVCS agreements, or shared facilities agreements, the condominium board may wish to seek legal advice.

Preparing Instructions for the RFS Provider

To mitigate costs, the condominium board should be proactive (i.e., seeking to identify problems in the early stages and address their root causes) instead of being reactive and treating symptoms alone. To assist with this, the condominium board can consider in advance what kind of instructions they will give to the RFS provider.

For instance, the condominium board could consider whether they want the RFS provider to only conduct a visual inspection, or if they want a more in-depth inspection and analysis of some or all the condominium corporation's components (e.g., destructive testing or load bearing testing).

If the condominium board believes that a more in-depth inspection would be beneficial, they could consult with the RFS provider about what kind of testing beyond a visual inspection they wish the RFS provider to conduct.

If the condominium board desires a more in-depth inspection, they could also consider specifying that the reserve fund study include a site inspection even on years when a site inspection is not required. Although having a site inspection may be more costly, more frequent site inspections could help identify issues in advance.

For more information about different types of testing and which types are appropriate for a given condominium corporation's situation, the condominium board may wish to consult with their RFS provider.

Active Participation During the RFS Process

Condominium boards should not underestimate their ability to contribute to the reserve fund process. Although many condominium board members may not have engineering expertise, they are in communication with the owners and are familiar with the property and its unique features because it is their home. Condominium board members can help the RFS provider understand the unique elements and concerns of the condominium corporation to make sure that nothing is overlooked in the reserve fund study process. It is important to remember that RFS providers only see a snapshot of the condominium corporation, so the directors, who are familiar with day-to-day life in the condominium corporation, can provide valuable information to the RFS provider.

The condominium board should ask questions to the RFS provider leading up to the reserve fund study and can request that any areas of concern on the property or specific components of the building(s) be investigated.

Sometimes RFS providers have a standardized reserve fund study format which does not speak to the unique needs of every condominium corporation (e.g., smaller condominium corporations, heritage buildings). The condominium board can ask the RFS provider how they plan to tailor the reserve fund study to address the condominium corporation's particular concerns.

Once the study begins, the condominium board should raise any concerns or questions to the RFS provider early and often. It is better to ask for clarification early on than to receive a report that the condominium board does not understand or that is missing key elements. Condominium boards should be actively involved in each step of the reserve fund study process to ensure that they are able to use the results of the reserve fund study to adequately plan for future projects and funding of the reserve fund.

Anticipating Related Project Costs

Condominium boards should make sure to consider all possible project costs when the reserve fund study is being drafted. Sometimes important considerations and phases of reserve fund projects are not included in the overall costs, which can lead to underestimation of the funds needed to complete major projects.

For instance, if the reserve fund study identifies that the parking lot must be repaved, it is important that other potentially costly considerations are not forgotten such as paying for alternative parking for residents or the cost of erecting scaffolding to make entrances to the building(s) accessible for the duration of the project.



Sometimes the reserve fund study does not anticipate other major costs which are not tied to a particular project. Condominium boards should use their expertise and experience in overseeing the building to raise anything they think might be missing from the study and ensure that the RFS provider is taking these costs into consideration when drafting the reserve fund study.

Condominium boards should have a long-term approach to maintaining the condominium corporation and they should explain this approach to owners. This could include considering investing in quality but more costly materials up front so that the condominium corporation extends the intervals between necessary repairs. Condominium boards should be curious and ask the RFS provider about different options and materials and their longevity and appropriateness for their condominium corporation.

However, it is important for condominium boards to remember that any material they choose for a repair or replacement must be as reasonably close in quality to the original as is appropriate in accordance with current construction standards. Otherwise, the repair or replacement could be considered an addition, alteration, or improvement to the common elements under [section 97](#) of the Condo Act, which would require certain procedures to be followed under that section.

Reviewing the Reserve Fund Study

When the RFS provider provides the study to the condominium board, the condominium board should set aside adequate time to review it carefully. The condominium board should not assume that the report that they receive is completely accurate in all respects or that there is no room for clarification or improvement. The condominium board also needs to be able to understand the reserve fund study in order to provide information to owners via the plan for future funding, and properly manage the condominium corporation's affairs.

Therefore, the condominium board can ask the RFS provider to explain the reserve fund study report in plain language wherever necessary and to explain how estimates were made (e.g., the industry standards that were used, the interest rates that were used, etc.). To ensure that the condominium board has a full understanding of the possible outcomes, the condominium board can ask the RFS provider to provide alternate scenarios and other possible estimates.

For instance, the condominium board could look for obvious omissions such as quantities that they are familiar with (e.g., number of parking spaces) or features which

are unique to their property. The review gives the condominium board the opportunity to ask for clarification of any terms or measurements from the RFS provider directly.

As owners often ask questions regarding the reserve fund to the condominium board, if the condominium board does not understand the reserve fund study, it is likely that the owners will struggle to understand it as well.



A thorough review can give the condominium board the opportunity to ask the RFS provider to explain any features of the report to the condominium board in terms that are more familiar to them, which in turn allows the condominium board to explain the report to the owners.

In reviewing the reserve fund study, some condominium boards assume that the condominium manager will provide a thorough review of the reserve fund study and catch any and all errors. However, condominium boards should understand that they are ultimately responsible for performing a thorough review of the study and raising any concerns with the RFS provider.

Project Oversight and Reserve Fund Spending

Although condominium boards retain RFS providers, condominium managers, and other contractors to manage reserve fund projects, condominium boards are ultimately accountable for these projects. Therefore, condominium boards need to take responsibility for the overall management of the reserve fund study process and for the reserve fund projects that come from it.

Effective oversight of the reserve fund involves participating in the reserve fund study process, identifying major repair and replacement priorities, procurement (e.g., seeking and choosing contractors), supervising the completion of major projects, setting and meeting targets and deadlines, communicating with owners, and reacting effectively to unexpected challenges.

Project Phases

Condominium boards must weigh different considerations when planning large reserve fund projects. For instance, two factors for any project the condominium board should consider are the overall cost versus the disruption involved with a particular project.

It may be less disruptive to complete a major project in phases (such as only doing part of the garage at a time) but doing projects in phases may increase costs rather than completing the whole project at the same time due to the cost of demobilizing and mobilizing again for each phase.

There is no one-size-fits-all approach for deciding what each condominium corporation prioritizes. Owners in one condominium corporation might prefer to finish the project quickly and the condominium board should take this into consideration when working with professionals to plan the project. In another condominium corporation, the owners might prefer the least disruption possible, regardless of a higher cost of the project.

This is another reason why engaging owners and getting their feedback is a good idea before, during, and after the project. Soliciting input is particularly important with larger projects or projects which are potentially more controversial. Although projects can be disruptive to condominium corporations, they can also be seen as an opportunity to bring the community together and make owners feel like their voices are heard.

Long-Term Planning

Condominium boards should not wait until the last minute to start planning a project and should consider taking major projects to market in advance of an anticipated project. This can allow condominium boards to get a more accurate idea of the costs involved, so that they can avoid levying potential special assessments on owners. Starting early can also allow condominium boards to get multiple quotes and potentially optimal pricing for each project so they can weigh their options.

There are different philosophies to reserve fund management which can have a large impact on the health of the reserve fund and the overall cost to owners for keeping the property in a good state. The most effective approach is the long-term planning method. This means that the condominium board considers the overall picture instead of focusing exclusively on specific repair and replacement problems in isolation. It also means planning in advance instead of reacting to repair and replacement issues as they arise.

This long-term method of planning means that the condominium board has an overall approach which anticipates problems and allows the condominium board to deal with them in the most cost-effective way. Too often, condominium boards are under pressure to focus on immediate issues, but it is necessary for them to be able to prioritize long-term projects as well.

One way to facilitate long-term planning is to understand building life cycles. Newer buildings typically have fewer reserve fund expenditures, but generally the funding needs of the reserve fund will increase as the condominium corporation ages. The condominium board should seek to educate owners and set realistic expectations about

what to expect in the short-term and long-term future of the building(s). The condominium board can also ask their RFS provider for information about the typical life cycles of repair for different assets of the condominium corporation such as roofs, parking garage ramps, and windows.

Condominium boards which engage in long-term planning are more likely to avoid borrowing and special assessments. They also may be able to prevent some issues from arising in the first place or prevent them from getting worse than they need to be (e.g., identifying and addressing a deteriorating roof early on could prevent water damage and mould in the walls or the foundation).

Appendix: Glossary of Key Terms

Common expenses fees: The amount that unit owners pay to the condominium corporation, typically monthly, for several purposes. The common expenses fees have several components, including contributions to the reserve fund, an amount dedicated to operating expenses, and other costs.

Component inventory: An inventory of each item of the common elements and assets of the condominium corporation that is expected to require a major repair or replacement within at least 30 years of the date of the reserve fund study, where the minimum cost of replacement is \$500.

Comprehensive study: The first type of reserve fund study each condominium corporation is required to have completed. This requires the RFS provider to physically visit the property to examine the common elements and assets as well as conduct verification of records and hold interviews with the directors, employees, and agents of the condominium corporation. A minimum 30-year timeline is used for the projections.

Life cycle: All buildings, including condominium corporations, have “life cycles” (e.g., the predictable aging patterns of a building and which components tend to break down first). The life cycle of a building corresponds to the “life cycle” of a reserve fund because as buildings age, the funding needs of the reserve fund will change as well.

New Owner Information Certificate (NOIC): A certificate that must be given to a new owner of a condominium corporation within 30 days of the owner providing their name and identifying their unit to the condominium corporation. The NOIC must include a copy of the most recent periodic information certificate (PIC) and any information certificate updates that the condominium corporation has made.

Notice of future funding: A notice that the condominium board must give to owners within 15 days of reviewing the reserve fund study and proposing a plan for future funding of the reserve fund.

Operating fund: A fund which is used for expenditures other than major repairs and replacements of the common elements. Expenditures from the operating fund could include maintenance costs, employee salaries, and utility bills.

Peer review process: In the engineering profession, it is a good practice that a reserve fund study be peer reviewed by at least one senior engineer. This practice is referred to as a peer review process. A peer review process provides a degree of safety for the condominium corporation by assuring that the assumptions and cost

estimates made by the RFS provider are reviewed by a second set of eyes for accuracy.

Periodic Information Certificate (PIC): A certificate containing information about the condominium corporation that is prescribed in the Condo Act and that is sent to owners twice a year. The PIC is sent once within 60 days of the end of the first quarter of the condominium corporation's fiscal year, and again within 60 of the end of its third quarter.

Plan for future funding: The plan that the condominium board must propose within 120 days of receiving the reserve fund study from the RFS provider. The condominium board must send out a notice to all owners including a summary of this plan within 15 days of proposing it. This plan must ensure that the fund will be adequate for the purpose of major repair and replacement of the common elements under [section 94 \(8\)](#) of the Condo Act.

Reserve fund: A reserve fund is a special account which is used to pay for major repairs and replacements to the condominium corporation's common elements and assets.

Reserve fund study: A mandatory study of the property and components of a condominium corporation which must be performed every three years by a prescribed professional such as an engineer. These studies try to anticipate major repairs and replacements which will arise in the condominium corporation and estimate the total amount of funding which will be necessary to complete these projects. The studies are used to recommend a certain amount of yearly funding for the reserve fund.

Site inspection: A visual site inspection includes a visual inspection of each item in the component inventory where practicable.

Updated study: Also referred to as a "class 2" or "class 3" reserve fund study. After a condominium corporation completes a comprehensive study (or "class 1" reserve fund study), they are required to conduct updated reserve fund studies at least every three years. There are two types of updated studies:

1. A **class 2** reserve fund study which includes a site inspection and many of the requirements of the comprehensive study.
2. A **class 3** reserve fund study which does **not** include a site inspection but does involve verification of records and interviews with the directors, employees, and agents of the condominium corporation.