TOP CONSIDERATIONS FOR DECIDING BETWEEN **SPECIAL ASSESSMENT, LOAN,** OR **DEFERRING A MAJOR PROJECT**

By Rob Mabe, CCI NS Board Director and VP, Business Development of CWB Maxium Financial

A condominium corporation with major repair or remediation needs and not enough Reserve Funds is faced with difficult decisions. Here are some of the important questions the Board should consider if faced with the tough choice between special assessment, loan or deferral:

1. What impact would a special assessment have on the condominium community?

Each owner will be impacted differently by a special assessment, particularly a large one. Some owners may have the money for the special assessment, either through savings or borrowing. For other owners, the impact of the special assessment may create financial hardship. In the worst case scenario, owners unable to pay the special assessment may be forced to sell their property for less than market value, and this can negatively impact the value of all condominium units. If a special assessment is spread over time, the Board needs to be mindful that the increased monthly payment might cause problems for homeowners renewing their mortgage during this period.

2. Should the existing owners pay the full cost of the major project while also paying for the future replacement?

With a special assessment the owners are paying the full cost, while also paying for the future replacement of the same component through the Reserve Fund contributions. A loan through the condominium corporation matches the cost with ownership, and whoever owns the unit is responsible for the loan repayment, while also benefiting from the work that has been done.

3. If we delay the repairs/project, how much should we expect the costs to increase on an annual basis, and how does that compare with the cost of borrowing?

Some Boards decide to delay or phase-in the work in order to accumulate enough money in the Reserve Fund. There are the costs associated with deferring work that need to be considered. As a general rule, construction costs in the HRM are expected to increase by 2% per year (based on the construction price index), but in reality the cost of doing the same work in the future can be much greater. In addition, some projects have very high mobilization and administrative costs that are incurred each time the project site it set-up or taken down. In today's low rate environment, the costs are likely increasing at a rate higher than you are earning on the money in your Reserve Fund. Other costs to consider include ongoing maintenance and repairs, the cost of further damage, and the potential lost savings (i.e. energy).

Sometimes it is actually cheaper to borrow to do the work now in as few phases as possible, rather than spread out the project (complete window replacements can be a good example).

4. How much would a loan option increase the monthly fees and how does this compare with other condos in our area?

Experienced lenders can help a board determine what your condominium fees would look like under various loan scenarios. The corporation may be in a situation where their condo fees are maintained at current levels or a level comparable to similar properties in the area.

This allows the condominium to leverage the loan and complete the necessary repairs without reducing the market value or attractiveness of the units due to high condo fees.

5. Will the contractor and/or manufacturer offer a discount to do all the work in one or two phases instead of staggered over a longer period of time?

In general, contractors want to get more business now, and they may be willing to discount their price to complete the job in a shorter timeframe. This can translate into material cost savings for the corporation.

6. What is the community's tolerance for construction?

Renovation or repair projects are disruptive to the community. Consolidating and combining projects can reduce the amount of time residents need to live through the "construction zone".

7. Are there other planned projects that could be grouped together at the same time to help keep condo fees as low as possible in a borrowing scenario?

A corporation should evaluate the impact to the future funding needs if necessary major projects are moved forward in time. The impact to the future condo fees may be surprising; a corporation that has completed their most expensive projects has much different reserve funding needs than a corporation with big projects on the horizon.

By asking the right questions and exploring all the available options, a board can make an informed decision, and choose a path that best fits the needs of the corporation and the owners as a whole.

8. Would the owners be supportive of a loan if they have the choice to pay the special assessment while other owners could participate in the loan?

Regardless of rationale, some owners may always just want to pay a special assessment. Specialized lenders that can guide the corporation through a process where some owners can choose to pay a special assessment, and other owners can access a loan through the corporation. The critical step in this process is appropriately communicating with the owners so they are well informed, and able to choose the option that is right for their particular situation.

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ENERGY-SAVING TIPS FOR YOUR CONDO

By Efficiency Nova Scotia

A little late-spring cleaning will help save you money throughout the year.

The bulk of your energy bills over the next few months will come from your hot water heating and cooling for your building. Further savings can be made by improving the performance of your fridge and taking advantage of free energy to dry your clothes. Here are some tips and tricks to help you get started:

Hot water heaters:

If you have a hot water heater in your home, it is likely to be a standalone electric unit. These systems are about 90% efficient, but can account for as much as 45% of your annual electricity use. The first step is to ensure the temperature on your hot water heater is set between 60-65°C (140-150°F). Lower temperatures can risk bacterial growth that could lead to Legionnaires Disease.

After setting the temperature, the next big savings come from wrapping the tank with an insulation jacket. Insulating your hot water heater can save over $35/year by reducing the need to heat standing water. Additional savings of $10/year can be achieved by installing pipe insulation around all of your hot water lines and insulating at least three feet of the cold water line coming from the tank.

Air conditioners/exterior heat pumps:

Air conditioners and exterior heat pump compressors may be damaged over winter months. Spring is a good time to make sure the unit is running as it should, checking the fan blades for small dents and ensuring that there is no unusual noise coming from the system. If you do notice dents in the blades or something doesn't seem right with your system, call in a technician to repair your system. Maintenance and a quick tune-up early in the season can reduce your annual heating and cooling costs by up to 5%. To further reduce costs associated with cooling, keep blinds and heavy curtains closed during the daytime to stop direct sunlight from entering your living space.

Refrigerators:

Refrigerators must work harder in the summer months to keep food cold. Turn on a flashlight and place it in the fridge/freezer and close the door. If you can see light with the door closed, there are gaps for cold air to escape. Repair or replace the seal as necessary.

It is also beneficial to clean the dust off the evaporator coils that can be found below or behind the fridge. Combining these two simple tasks can reduce energy use by nearly 8%. If you're purchasing a new fridge, look for an ENERGY STAR model. To be ENERGY STAR, the fridge must perform at least 20% better than federal energy standards and can be up to 40% more efficient than non-ENERGY STAR appliances. For further savings, a slightly smaller fridge will cost less on your power bill and is typically less expensive than bigger models. ■