

Getting Started on Reserve Planning - Fred Douglas Place

History and HLC Customer Experience

Why Reserve Planning when we did not need it before?

- In any housing project whether non-profit, co-operative, condo corporation, or rental apartments, there will be building life cycle investments and / or expenses and the planning process is intended to plan for the future and avoid financial shocks.
- This is particularly critical for seniors and low or fixed income residents.

Why Reserve Planning when we did not need it before?

- As a case in point, in Alberta in 2018 it was determined a 13 year old condo complex was faced with replacement of all balconies at a cost of \$2 M as they were wood construction and at risk of becoming unsafe.
- Irrespective of ownership and financing arrangements there are impacts on owners and residents.

Why Reserve Planning when we did not need it before?

- For FDP, at 25 years of age we were confronted with major projects:
 - > Building re-pointing / flexible joint sealant - \$0.45M
 - > HVAC replacement \$0.97 M
 - > Roof and Balcony patio repairs \$0.5 M
 - > Elevator modernization \$0.6 M
- The main point is there will be serious financial shocks without proactive inspections and planning, or asset life and possibly safety may be compromised.

Historical Position 5 years Past

- Like many other housing entities FDP had a very basic Reserve Plan for facility renewals and suite upgrades.
- FDP struggled to develop a suitable sustainable Replacement Reserve Plan.
- Insufficient funds were transferred annually with the fund frequently being depleted by suite upgrades without significant major projects in a 25 year old building.

Historical Position 5 years Past

- FDP has a legacy of prudent fiscal management as a premier, affordable, and desirable Non-Profit Life Lease property with 130 suites.
- Entrance Fees remained unchanged with comparatively low capital costs and rents increasing 49% over 25 years as compared to 72% consumer cost increases.

Impetus To Change Driven By Need and Opportunity

- FDP had completed solar panel installations and exterior building brick re-pointing and flexible joint sealant.
- Confronted with the need to commit to a \$1 M HVAC project and anticipated \$0.5 M Roof and A-Floor patio drainage renovation.
- FDP was financially stable but suffered with an under funded Reserve Plan.

Actions Initiated

- Work with our Assiniboine Credit Union (ACU) to negotiate a new 25 year mortgage to include our HVAC project with an added future draw of \$0.5 M to cover the roof and patio project.
- Requested Manitoba Housing take second position after our prime mortgager affording increased interest savings.

Actions Initiated

- Annualized savings of \$156,000 committed to operating allowing absorption of suite renovations under operating budget.
- Annual Reserve deposit increased to \$126,000 in 2014.
- Maintain and improve our healthy prospective tenant wait list while minimizing turnover time intervals.

Working With ACU Our Financial Partner

● Basic principles:

- > Ability to acquire extended financing is dependent principally on sustainable cash-flows and ability to retire debt.
- > It includes consideration of a **FAVORABLE BUILDING CONDITION REPORT** that demonstrates appropriate capital investment and annual operating expenses for viability and sustainability.
- > Favorable financial ratios.

Working With ACU Our Financial Partner

- Basic principles:

- > Increased diligence in understanding and managing our business through:
 - Improved Financial reports,
 - Budgeting process with a focus on positive annual cash-flow,
 - Reserve Plan,
 - Suite Inventory Condition Report.

2017 HLC Report

- As recommended by ACU, in December 2016 HLC was contracted to complete a Building Assessment.
- HLC conducted their inspection and interviewed staff regarding past investments and renewal strategies, and included planned projects for our 5 year plan.
- The assessment was indicative of suitably funded sustainable building investment and maintenance plan and was positively received by the FDP Board.
- Most importantly it afforded a framework that FDP adopted to enhance our Reserve Planning process.

2017 HLC Report

- The report identified each building element such as building envelop, mechanical systems, electrical systems, safety systems, pavement, services, parkade, as well as common area and suite finishes.
- Sub-elements such as HVAC components, elevators, emergency generator, and lighting, etc. were also included.

2017 HLC Report

- The report identified expected component life, effective age, and remaining expected service life with estimated repair or replacement costs.
- The report identified contingency allowances for future maintenance.
- The study did not differentiate capital from operating nor need it as it is focused on complete anticipated building and system requirements.

FDP Takeaways

- FDP Reserve Plan was missing many elements and in particular sub-elements in our plan, nor did we maintain a detailed record of our historical investments.
- We struggled to identify realistic service life and the separation of what constitutes capital and operating which influences property taxes.
- FDP at the least endorses HLC services for a situation assessment and periodic follow-up assessments and intends to periodically engage HLC for condition reviews.

HLC Services

- HLC has a methodology, experience, and access to planning data that is not generally available to or inherent in most boards or management groups.
- HLC also offers Reserve Planning that can provide a 5 year plan and projections that could consider major elements potentially up to 30 years.

FDP Reserve Plan

- FDP adopted the HLC report format and extended it to include shared facilities external to our building for which we have financial liabilities.
- FDP does not differentiate between capital and operating being satisfied to have our auditors address same in annualized audits.

FDP Reserve Plan

- The 10 year Reserve Plan identifies anticipated projects and expenses and is reviewed annually with emphasis on the next 5 years.
- Planning has advanced to include reserve allowances (contingency) for various building components so funds are being set aside annually for significant future projects even beyond 10 years.

FDP Reserve Plan

- Normal annual expenditures are absorbed in our operating budget leaving the Reserve Fund for major projects, shortfalls in operations due to unanticipated needs, or significant expenses for off property shared service costs.
- FDP anticipates contracting for a periodic HLC condition and plan review.

FDP Today

- FDP Reserve Plan exceeded \$1 M this year and is now undertaking major elevator renovations.
- FDP is confident in our current Reserve Plan and continues to enhance the plan.
- The 10 Year Plan includes Reserve items, an operating expense plan, and allocated future Reserve Allowance Plan.

FDP HLC Association

- FDP considers our work with HLC to be a watershed moment in our Reserve Planning process with HLC viewed as a significant service provider and resource as is ACU our lending financial institution.
- In consideration of available HLC services, there likely has never been a greater need for non-profit housing or the explosion of owner managed condo corporations, many of which lack the requisite experience and skills to manage Reserve Planning.