

Building Condition Assessment and Reserve Fund Study

Report Template for Service Managers



Social Housing
Services Corporation

Description

This template is intended to be used by Service Managers to help structure the report of the findings of a Building Condition Assessment Audit (BCA) and/or Reserve Fund Study (RFS) and to present the recommendations and any strategies that could be used to mitigate a potential issue to City/County/Regional Council.

There are highlighted areas in the report template that required to be completed from the BCA/RFS study results. While it is a workable and fully developed template, Service Managers are encouraged to add in different sections, strategies and details which are relevant to their portfolio and/or the informational requirements of their particular audience.

Report Template to City/County/Regional Council on the BCA/RFS Results

Recommendations

[INSERT HIGH LEVEL DESCRIPTION OF POLITICAL AND MANAGEMENT STRATEGIES AND RECOMMENDATIONS]

Summary

In [INSERT DATE], the CMSM commissioned a Capital Reserve Fund Study and Building Condition Assessment of the social housing portfolio. This study consisted of an analysis of the cash flow required for the Capital Reserve Funds held by social housing providers to meet current and future capital repair requirements of the portfolio.

A Building Condition Assessment (BCA) is a snap shot in time of the condition of various building elements. The BCA provides an estimated cost in present value dollars to repair or replace a building element, and the year that the repair or replacement is likely to occur. The Building Condition Assessments in this study project capital costs for the next thirty years for each project.

A Reserve Fund Study (RFS) builds on the information provided in the BCA. The RFS converts the present value cost to future values based on an assumed rate of inflation of [INSERT ASSUMED INFLATION RATE FROM BCA REPORT]. The RFS then estimates the cash flow into and out of the Reserve Fund using the opening balance and the owner's annual reserve fund contribution rate to the fund and an assumed interest rate of [INSERT ASSUMED INTEREST RATE FROM BCA REPORT]. The cash flow analysis of the reserve fund will show where negative balances may occur. It is possible to model changes in the annual reserve fund contribution rates to the replacement reserve fund to adjust for these short falls.

This study will assist the CMSM to understand the physical condition and life expectancy of the social housing portfolio in order to explore funding options to sustain the physical integrity of the asset.

Purpose

To report back to [INSERT CITY/COUNTY/REGIONAL COUNCIL, AS APPLICABLE] on the results and findings of the building condition assessment and reserve fund study.

Background

History of Replacement Reserve Funds

Replacement Reserve funds are commonly established to fund the repair and replacement of major components of buildings.

The requirement for capital dollars in a building tends to follow cycles and to fluctuate from year to year. For the first 15 to 20 years after a building is constructed there should be a minimal requirement for capital dollars as all of the building components are new and should have a life expectancy greater than 15 years. As the building ages, individual building components reach the end of their useful life and require major repair or replacement. The requirement for capital work can fluctuate greatly from year to year depending on the type of work required.

Ideally reserve funds are established from the first day the building is occupied and annual replacement reserve fund contributions are made for future repairs. The fund should enjoy a holiday from expenses in the first 15 to 20 years. This allows it to grow to a substantial amount, and by the time it is necessary to draw on the fund the combination of interest earned on the principal and the annual replacement reserve fund contribution, should be sufficient to fund necessary capital work without substantially drawing down the fund.

Social Housing Capital Reserves

Each non-profit/cooperative housing provider has its own mortgage, registered against the title. The mortgages have been amortized for 35 years, and insured under the National Housing Act. The Ministry of Municipal Affairs and Housing currently manages mortgage renewals centrally in order to ensure the best possible lending rates through bulk tendering.

[INSERT THIS PARAGRAPH IF REPORTING ON AN LHC – DELETE IF NOT LHC BCA] Most of the capital cost for public housing was financed with fifty-year debentures, which were advanced by Canada Mortgage and Housing Corporation under the National Housing Act. Capital financing is managed centrally by the Social Housing Services Corporation (SHSC) in order to obtain the best rates.

Each non-profit/cooperative housing provider receives subsidies. A portion of the subsidy is to be invested in a capital reserve account to fund the acquisition, replacement and improvement of capital assets. **[INSERT THIS LINE IF REPORTING ON AN LHC – DELETE IF NOT LHC BCA]** The former Ontario

Housing Corporation housing units did not have separate capital reserve accounts. Funding for capital work was done through the annual budget process on an “as needed” basis.

Non-profit /co-operative buildings were established with reserve funds at the time of construction. Part of the subsidy each non-profit provider receives must be invested in a capital reserve account under terms established by the operating agreement between the provider and the provincial or federal government. The actual amount varied slightly depending on the program in effect at the time of construction, however the average annual replacement reserve contribution was approximately 0.67% of the initial cost of construction of the building. From 1992 to 1997 the province placed a moratorium on contributions to the replacement reserve funds for all provincial and federal/provincial non-profits in order to save provincial subsidy costs.

In 1994 the province, to accommodate the shortfall that individual non-profits experienced as a result of the replacement reserve moratorium, amended the policy for capital repairs. If a non-profit was unable to proceed with a major capital repair because of insufficient funds in its reserve fund it could apply to the province for a short-term loan to cover the cost of the repair. The province would carry the loan until the non-profit mortgage came up for renewal at which time the province would add the value of the loan to the mortgage of the non-profit and extend the term of the mortgage so the monthly payment remained approximately the same for the provider. In 1997 this policy was changed again - the provincial and federal governments provided a one time \$203.8 million top up to housing provider replacement reserves. The moratorium on contributions was removed and contribution amounts were increased \$30 million annually across Ontario.

In April of 2001 the Ministry of Municipal Affairs and Housing divided \$45 million directly into the reserve fund accounts of housing providers. This was a one-time top-up not an increase in the annual replacement reserve contribution. **[INSERT THIS LINE IF REPORTING ON AN LHC – DELETE IF NOT LHC BCA]** No funds out of this \$45 million were directed to the Public Housing Portfolio.

The Ministry of Municipal Affairs and Housing engaged IBI Consultants of Toronto in August 2000 to review the reserve funds of the non-profits and determine if they are adequate. IBI selected a sample of 5% of the non-profit portfolio at the time (1999) and conducted building condition assessments of that sample of the portfolio. In May 2004 the IBI Group report was released. The IBI report found that contribution amounts of \$747 per unit per year for the provincial projects and \$560 per unit per year for the federal projects the reserves were under funded and suggested a funding rate of \$859 for provincial non-profits and \$1,250 for federal non-profits would be more appropriate. These numbers as reported by IBI may further under estimate the adequacy of the reserve funds because IBI reported that the Ministry of Housing directed them to use long

service life in their study where as most building condition assessments done by professionals will use average service life. The issues facing the housing providers are significant and relatively near term that indicated that the capital reserve funds are under funded.

Scope of Study

The Building Condition Assessments (BCAs) are third party independent assessments of the properties. BCAs are professional opinions of the status of the properties based on a visual inspection. There is no single industry standard for the expected life of a building element or the cost to replace the building element. In fact, within a typical item such as “roof” there can be a wide variety of styles and quality, which will account for differences in life expectancies and replacement values. Each consultant has their own personal experience to draw on which will also affect their conclusions.

In [INSERT DATE OF BCA REPORT], [INSERT NAME OF CONSULTING FIRM] visually assessed the functional and physical condition of the buildings and grounds, and identified capital needs. This information was used to prepare Building Condition Assessments for each property. The BCAs contain recommendations for a program of capital repairs over the next 30 years. The consultants made a site visit to every project, conducted site inspection of the interiors of 15% of the total units, and made use of all technical information available. This included the original architectural design drawings, structural, electrical, and mechanical drawings, and any background information, past maintenance contracts and accounting information provided by [INSERT LHC/NON-PROFIT/CO-OP NAME]. Following the completion of the individual technical reports, [INSERT NAME OF CONSULTING FIRM] compiled and analysed the results and prepared this report, which summarizes the findings, and identifies overall conclusions and implications.

The Consultant reviewed capital related work only, which by definition are improvements that extend the useful life of building elements. Repairs that maintain the functionality of building elements but do not extend the useful life are not capital. Partial replacements can be capital work if they are substantial enough that the replacement would be left in place when the rest of the building element is replaced sometime in the future.

The major group elements reviewed include:

- o Site work
- o Structure (framework of the buildings)
- o Building Exterior
- o Building Interior

- o Elevator Systems
- o Life Safety Systems
- o Electrical Systems
- o Mechanical Systems
- o Parking Garage Structure

The BCAs were conducted by the same team of individuals, which provided consistency in technique in each of the portfolios of buildings.

Study Results

The [INSERT NAME OF LHC/NON-PROFIT CO-OP PROVIDER] social housing portfolio is in [INSERT QUALITATIVE DESCRIPTION IE. GOOD, POOR ETC] condition. During the consultants review, there were [INSERT NUMBER OF ISSUES PER THE FOLLOWING FROM THE REPORT] Capital Work Priority A-Life Safety, B-Structural Integrity or C-Legislative Issues observed. Capital Work Priority D-Building Functionality is the most significant type of expenditure observed, which are usually building elements that are scheduled for replacement at the end of their useful life.

The BCA reports forecasted [INSERT NUMBER FROM REPORT] years of expenses for each project in the portfolio. Those expenses were inserted in the Reserve Fund Study spreadsheets and converted to future values based on an inflation rate of [INSERT ASSUMED INFLATION RATE FROM REPORT].

To assess the adequacy of reserve funds over a [INSERT NUMBER FROM REPORT] year period, [INSERT NUMBER OF SCENARIOS FROM REPORT] cash flow analysis scenarios have been provided.

The [INSERT NUMBER OF SCENARIOS FROM REPORT] scenarios are as follows:

i) *Scenario 1 - Status Quo:*

The non-profit organizations have existing replacement reserve opening balances and annual contribution amounts. Scenario 1 shows the resulting reserve fund balances over the thirty-year cycle using the existing opening balances, and existing annual contributions with no top up amounts. A [INSERT ASSUMED INFLATION RATE FROM REPORT] inflation rate and a [INSERT ASSUMED INTEREST RATE FROM REPORT] interest rate are assumed.

ii) *Scenario 2 - Adjusted Annual Reserve Fund Contribution:*

Scenario 2 has taken the existing situation of Scenario 1 and adjusted or increased the annual reserve fund contribution to find a relatively constant annual contribution, which would deal with the large fluctuations in annual capital expenses. Having a relatively constant annual reserve fund contribution is an advantage to the Service Manager, because it avoids large fluctuations in annual subsidy requirements. At the end of the [INSERT NUMBER OF YEARS PROJECTED FROM REPORT] year period the closing reserve fund balance should deal with the expenses, not yet identified, in year [INSERT NUMBER OF YEARS PROJECTED FROM REPORT PLUS ONE YEAR]. A [INSERT ASSUMED INFLATION RATE FROM REPORT] inflation rate and a [INSERT ASSUMED INTEREST RATE FROM REPORT] interest rate are assumed.

iii) *Scenario 3 – Adjusted Opening Balance:*

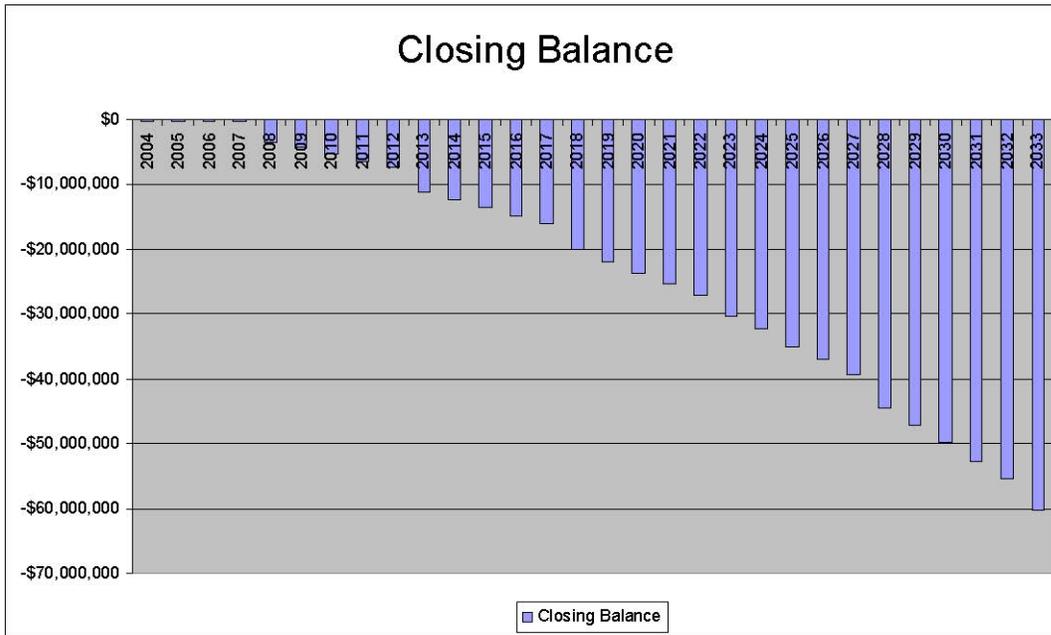
Scenario 3 has taken the existing situation of Scenario 1 and adjusted or increased the opening balance with a single lump sum amount that would service the forecasted expenses over the [INSERT NUMBER OF YEARS PROJECTED FROM REPORT] year cycle. Scenario 3 assumes the annual reserve fund contribution of Scenario 1 will continue at the same level over the [INSERT NUMBER OF YEARS PROJECTED FROM REPORT] year period. A [INSERT ASSUMED INFLATION RATE FROM REPORT] inflation rate and a [INSERT ASSUMED INTEREST RATE FROM REPORT] interest rate are assumed.

[INSERT ADDITIONAL SCENARIOS FROM REPORT AS REQUIRED]

Scenario 1 – Status Quo

At this level of funding the balance quickly goes negative and remains negative. By year [INSERT YEAR BALANCE TURNS NEGATIVE UNDER SCENARIO 1] the closing balance is [INSERT NEGATIVE BALANCE HERE] million. There are large fluctuations in the necessary expenses from year to year. This causes the fund to go negative and interest expense compounds the problem and the fund never recovers.

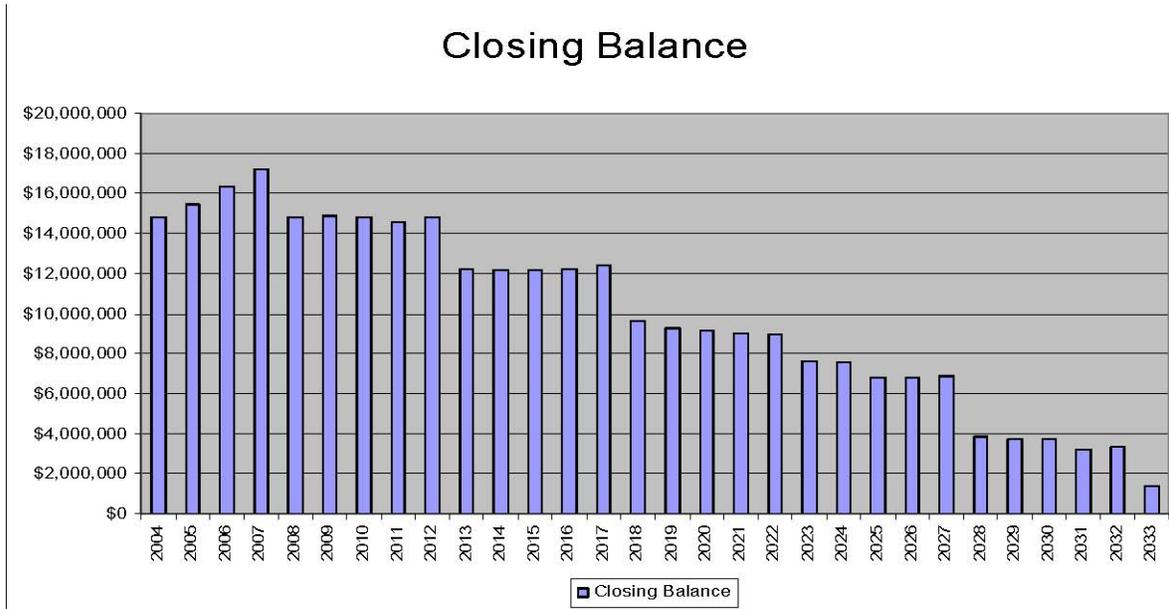
[INSERT CHART FROM BCA REPORT SHOWING CAPITAL FUND OVER THE PROJECTED PERIOD PER EXAMPLE BELOW]



Scenario 2 – Adjusted Annual Reserve Fund Contribution

Scenario 2 provides an increase in the annual reserve fund contribution rates (for each of the [INSERT NUMBER OF YEARS PROJECTED] years in the Study) that would prevent negative balances in the reserve fund, and furthermore a constant annual reserve fund contribution increase is an advantage to the Service Manager because it avoids large fluctuations in annual requirements. The figure below shows the closing balances, which would result if the annual contribution was increased [INSERT NUMBER FROM REPORT] per year from [INSERT CURRENT CAPITAL CONTRIBUTION] to a total of [INSERT RECOMMENDED CAPITAL CONTRIBUTION] per year. The capital reserve fund would remain in a positive balance and end with a balance of approximately [INSERT ENDING BALANCE AT END OF PERIOD OF PROJECTION] in the year [INSERT FINAL YEAR OF PROJECTIONS].

[INSERT CHART FROM BCA REPORT SHOWING CAPITAL FUND OVER THE PROJECTED PERIOD PER EXAMPLE BELOW]

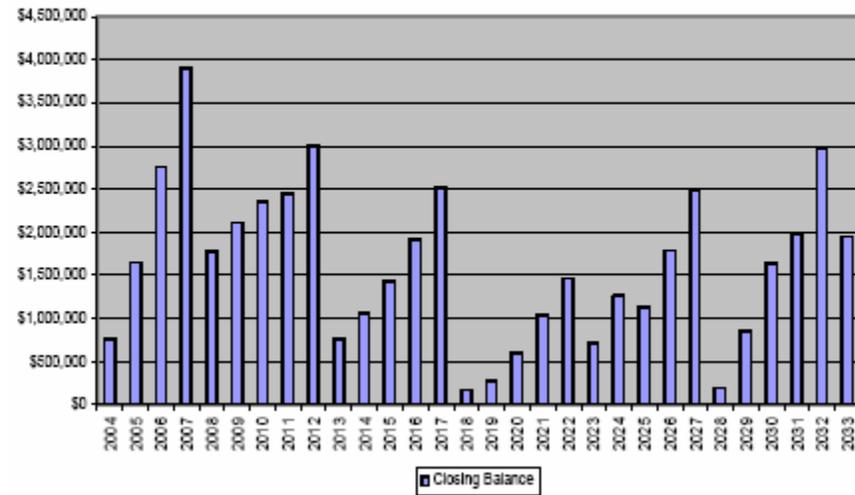


Scenario 3 – Adjusted Operating Balance

Scenario 3 provides a one-time top up to the opening balance that would prevent negative balances in the reserve fund. The figure below shows the closing balances which would result if the opening balance in [INSERT CURRENT YEAR] were increased to [INSERT NUMBER FROM REPORT WHICH DETAILS REQUIRED INCREASED OPENING BALANCE] million. The capital reserve fund would remain in a positive balance and end with a balance of approximately [INSERT ENDING BALANCE AT END OF PERIOD OF PROJECTION] in the year [INSERT FINAL YEAR OF PROJECTIONS].

The Figure below shows the reserve fund closing balances, which would result with the one time top up of [INSERT ONE TIME TOP-UP NUMBER FROM REPORT] million dollars.

Closing Balance



Budget and Financial Implications

Many Service Managers across the Province have undertaken due diligence exercises on the social housing portfolio. Their study conclusions and findings demonstrate that the current level of annual reserve fund contribution is not adequate to meet or sustain the capital needs of the Social Housing portfolio.

The [INSERT NUMBER OF YEARS OF PROJECTIONS] year capital financial projection is as follows:

| Major Building Categories | Financial Requirements (\$000's) | | | | | | |
|--|----------------------------------|--------|--------|--------|--------|-----------|------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6-15 | Year 16-30 |
| Site work | █ | █ | █ | █ | █ | █ | █ |
| Structure (framework of the buildings) | █ | █ | █ | █ | █ | █ | █ |
| Building Exterior | █ | █ | █ | █ | █ | █ | █ |
| Building Interior | █ | █ | █ | █ | █ | █ | █ |
| Elevator Systems | █ | █ | █ | █ | █ | █ | █ |
| Life Safety Systems | █ | █ | █ | █ | █ | █ | █ |
| Electrical Systems | █ | █ | █ | █ | █ | █ | █ |
| Mechanical Systems | █ | █ | █ | █ | █ | █ | █ |
| Parking Garage Structure | █ | █ | █ | █ | █ | █ | █ |
| Total | █ | █ | █ | █ | █ | █ | █ |

Current Financial Situation

[INSERT CURRENT FINANCIAL SITUATION AS IT RELATES TO FUNDING, STRATEGIES AND COMPARISON BETWEEN CURRENT CAPITAL RESERVE AND BENCHMARK]

[INCLUDING:

- Current level of funding being received by the Federal government, and municipal contribution
- Current funding strategies adopted by the municipality in dealing with the funding shortfall
- Comparison between SHSC's reserve contribution benchmark number of \$1,225 per unit/per year and the municipality's results to show the extend of the shortfall.

[BUT NOT LIMITED TO THE ABOVE]

At the current levels of annual contribution, City/County/Regional Council would be required to pursue alternative funding sources to implement the capital program outlined in the individual project Building Condition Assessment Reports.

Next Steps

Staff to develop strategies to deal with the funding shortfall.

[INSERT ADDITIONAL COMMENTS AS REQUIRED]