



**GUIDE TO
BUILDING CONDITION
ASSESSMENTS and
RESERVE FUND
STUDIES**

Contents

- What This Guide Covers.....3**
- Why Your Co-op Needs a BCA and RFS3**
- The BCA and RFS4**
 - What is a building condition assessment?4
 - What is a reserve fund study (RFS)?.....5
- What the BCA and RFS Include6**
 - The Building Condition Assessment6
- Your BCA and RFS8**
 - How much will it cost?.....8
 - Who should prepare your BCA and RFS?.....8
 - Getting started8
 - Getting a BCA and RFS report done 11
- Using Your BCA and RFS 13**
- Updating Your Co-op’s BCA / RFS 13**
- Appendix A: Tips for Reviewing a Draft BCA and RFS..... 15**
- Appendix B: Glossary of Terms 16**

What This Guide Covers

This guide is about building condition assessments (BCAs) and reserve fund studies (RFSs).

It explains

- » what BCAs and RFSs are
- » why your co-op needs a BCA and RFS
- » what a good BCA and RFS include
- » how your co-op can have them prepared.

The BCA and the RFS are two separate reports but they work together. Sometimes, when people talk about a BCA, they mean an RFS too. Make sure you get both of them. Just one is not enough.

Why Your Co-op Needs a BCA and RFS

There are three main reasons for getting a BCA and RFS:

- 1** To find out the real condition of your co-op's buildings and property
- 2** To use in developing a long-term plan for capital repairs and replacements over a 20-, 30- or 40-year period
- 3** To develop a plan for paying for your co-op's capital repairs and replacements as needed. The cost of most capital repairs and replacements cannot be covered by your co-op's annual operating budget. Your co-op will have to pay for them through your capital replacement reserve fund, or borrow the money, or both.

A BCA (including an RFS) gives you important information about your co-op and the money needed to keep it in good condition now and in the future.

Your co-op will want a solid plan for maintaining its buildings and properties for the benefit of current members and those who will live there in years to come.



The BCA and RFS

What is a building condition assessment?

A BCA is an assessment of your buildings and their architectural, mechanical and electrical systems, including finishes to unit interiors and common areas. The BCA also reviews the condition of the elements of the site your co-op occupies. Once the current condition of each component has been evaluated, a report is written that includes the consultant's observations, recommendations and budget estimates for repair and replacement.

A BCA sets out the current state of repair of your co-op's buildings and property. Everything is included from landscaping and fences to roofs and brick, from elevators and hall carpets to kitchen cabinets and bathroom floors. The consultant who prepares the BCA will include a description of the property and make suggestions about maintenance, repairs and replacements.

A BCA also tells you roughly when each part of your co-op's buildings and property will need repairing or replacing, and estimates the cost.

In developing the BCA, the consultant will

- » inspect all the different parts of your co-op's buildings and property. Typically, only a percentage of your total unit interiors and attics (usually 10%) will be inspected.
- » review such co-op documents as architectural drawings, technical reports or previous BCAs
- » interview co-op staff or members who have information about maintenance and the condition of the buildings and property.

When assessing the condition of a particular component, the consultant will use a **condition rating scale**. A common condition rating scale is "excellent / good / fair / poor."

The consultant will give a **priority rating** to every element, which will tell the co-op how urgently each one needs to be repaired or replaced. An example of a priority rating is "satisfactory / needs maintenance / needs immediate repair or replacement / health and safety concerns."



The consultant will estimate how much longer each element will last before it needs to be replaced or repaired, based on the component's present age, its condition and when it was last replaced. This is called the **remaining useful life** (RUL).

Consultants draw on databases that contain years of technical information about building and property components to help them determine the RUL. For example, if the consultant looks at your 7 year old roof and decides it is in good condition, they may know that similar roofs in good condition usually last another ten years. In that case, your roof's RUL would be ten more years.

Consultants will also have information about the current cost of replacing your roof and other components and will use that figure to work out how much it will cost to replace it in the future. This estimate is called the **projected expenditure**, which is determined by adding an inflation factor each year (usually 2%)

Considering the remaining useful life, the consultant will estimate how much a new roof will cost in ten years, based on what it would cost today.

Consultants know the best, most up-to-date ways to repair and replace building and site components. They will include suggestions in the BCA on how to make the repairs and replacements. These suggestions might include ideas about energy efficiency, cost savings or improved durability.

When the condition, priority ratings and costing are complete, the consultant will present the co-op with a draft of its BCA that will list

- » all the building and site components of your property and their condition
- » when the different components will need repair or replacement
- » how much each repair or replacement will probably cost.

What is a reserve fund study (RFS)?

A RFS identifies upcoming expenditures for the various elements of your property, estimates reasonable budgets for the repair or replacement of these components and predicts the probable date for the work.

In the RFS, the consultant lays out

- » year-by-year costs for capital repairs and replacements over the study period (20 to 40 years). These may include contingency costs and sales tax, but not the cost of project management.
- » the annual contribution to the reserve fund or the financing needed to pay for them
- » two or three funding scenarios (also known as cash-flow scenarios)
- » an inflation factor for estimating future costs
- » the approximate rate of return anticipated on co-op investments.

Based on information compiled from the building condition assessment, the RFS sets out the capital repair and replacement costs for each year over the next 20, 30 or 40 years, depending on what period the consultant has been asked to prepare the study.

The RFS will determine how much your co-op needs to set aside in its **capital reserve fund** every year in order to pay for future capital repairs and replacements. The annual reserve fund contribution amount will be based on

- » how much your co-op has in its reserve fund now (the reserve fund balance)
- » the total projected expenditures for each year
- » an estimate of how much your reserve fund will increase in value through investment earnings.

The consultant will include different scenarios or options describing how a co-op might pay for capital repair and replacement costs. The first scenario is a projection of how much money your co-op would have available if you continued to make the same reserve fund contribution as in your current budget (also known as the status-quo scenario). This will show your co-op whether your present level of reserve fund contribution will be enough for the upcoming expenditures. Other scenarios may include a cash injection in a particular year (loan) or an increase in the reserve contribution because your co-op's mortgage has been fully paid.

One cost that no co-op should overlook is for project management. Capital repairs and replacements can be major projects that take months, involve many steps and call for special supervision. We strongly recommend that a project manager be engaged to give large or sophisticated projects the oversight they require.

What the BCA and RFS Include

The Building Condition Assessment

Consulting firms have their own formats when preparing a BCA. However, a good format should always follow the **Standard Guide for Property Condition Assessments: Baseline Property Condition Assessment Process** (ASTM E2018-15 Standard). That guide does not deal with RFSs.

The BCA typically includes the following elements:

Introduction

- » sets out the purpose of the assessment
- » describes the scope of work
- » describes the property
- » points out any health and safety concerns

Methodology

- » describes the general method used to complete the assessment
- » identifies the unit interiors inspected, including attics
- » describes the information and documentation received and reviewed from the co-op
- » explains the condition and priority rating scales

Executive Summary

- » presents a summary of the findings
- » points out items that require immediate attention
- » describes any health and safety concerns

Building Condition Assessment

- » provides observations, recommendations and comments on all building and site elements assessed
- » includes photographs
- » lists the priority and condition ratings of the different building and property elements, the remaining useful life of each element, the total number of each of the elements and the projected replacement cost of each

Tables

- » includes a spreadsheet showing the projected expenditures for each year
- » sets out the inflation rate used to calculate the future cost of the expenditures
- » may include an inventory listing all



The Reserve Fund Study

The RFS typically includes the following elements:

Narrative

- » a short description of the financial scenarios or options given and the tables

Tables

- » a table for each **cash flow scenario** showing
- » the annual reserve fund contribution required
- » the annual projected expenditures as inflated and
- » the opening and closing balances of the reserve fund
- » the interest rate assumed on investments

Your BCA and RFS

How much will it cost?

At the time of writing, a BCA, including a reserve fund study, usually costs between \$4,000 and \$10,000. The cost will vary depending on your building types, where your co-op is located and the size of your property.

Who should prepare your BCA and RFS?

An accurate, useful BCA requires the services of a consultant (professional engineering or architectural firms) who is qualified and has experience in completing these reports.

Getting started

Getting started on the BCA and RFS typically includes the following steps:



1. Contact a consultant (sector-based or a professional engineering or architectural firm)

When determining which consultants to approach, ensure that they have professionals on staff that are experienced in preparing BCAs and RFSs. The Agency or other co-ops in your area may be able to suggest qualified consultants.

2. Use a bidding process to obtain competitive quotes

Your co-op will have to follow its own spending rules when contracting for a BCA and RFS. Given the usual cost and co-ops' typical spending rules, you will likely have to request **proposals** from three qualified consulting firms.

Experienced consulting firms will have a standard format for their proposals. If you are not familiar with a particular firm, ask them to include a sample BCA and RFS with their proposal.

Give the firms a due date for the proposal. Usually, a bid proposal can be submitted within a week or so.

a. Optional Work

Your co-op may want other work included in the proposal. The consultant should price these items separately. Optional work may include the following:

Inspections of unit interior

Typically, 10 per cent of unit interiors are inspected for a BCA, as this would provide a good sampling of the units' condition. You may want to have more units inspected, so ask the consultant to include a per-unit cost for inspecting additional units.

Elevator assessment report

Co-ops with elevators may want to request an elevator assessment report completed by an independent, specialized elevator consultant. The BCA would typically include a general evaluation of your elevators and associated components. However, you may want a more thorough inspection if you have elevator problems or are considering major repairs or replacement.

Additional meetings

The consultant will inspect the co-op during the scheduled site visit. You may want further visits to

- » present the draft BCA and RFS to the board of directors
- » attend a members' meeting when a report on the BCA and RFS is given.

Asking the engineer to present the draft BCA and RFS to the board of directors allows you to talk about concerns and ask questions. It helps the board understand the reasoning behind the engineer's projected expenditures and recommendations.

3. Select the consulting firm

Selecting the consulting firm should not take more than a week or so after your co-op has received the proposals.

The prices in the proposals will vary, but they should be similar. The review will also help you understand each consulting firm's scope of work and services to be provided.

Co-op staff should thoroughly review every proposal and check references. They should then make a recommendation to the board of directors to help with the selection. Staff may need to contact the firms and ask for further information or clarification before a decision can be made.

Each proposal should include the following:

- » an introduction
- » the co-op's background information (type and number of buildings, the year built, etc.), as provided in the RFP
- » the scope of the work, including a reference to the **Standard for the Property Condition Assessment (ASTM E2018-15)**
- » the cost of the BCA and RFS and any other additional costs
- » the date that the draft and final reports will be delivered to the co-op

Typically, the draft report will arrive about six to eight weeks after the co-op signs an agreement with the firm.

- » a billing schedule
- Most firms will invoice on completion of the final report. Others may issue progress invoices to the co-op upon reaching certain milestones.
- » a section to be signed by the co-op and the firm if the co-op decides to hire them
 - » the firm's contact information
 - » references

Typically, the co-op will choose the lowest-priced proposal. However, sometimes a higher-priced proposal may be preferred for various reasons:

- » the services included
- » considerations for optional costs
- » the completion date
- » the results of the reference check.

4. Award the contract

Once the board of directors has made a decision, the co-op and the consulting firm will sign the agreement included in the proposal.

Getting a BCA and RFS report done

Getting a BCA and RFS report done includes the following steps:



1. Site visit and document review

Within a week of the agreement being signed, the consultant should be in touch with the co-op to schedule the site visit. Once the visit has been scheduled, the co-op will need to give proper notice to the members whose units and attics (if present) will be inspected and ensure that the consultant has access to all common areas, mechanical rooms, roof and more on the day of the visit.

Some firms may have a **BCA and RFS Information Request Form** for the co-op to complete. The purpose of the form is to collect information about the co-op's property and finances to use in preparing the report. The consultant will ask for information about

- » the annual reserve fund contribution amount (and the potential to increase it when your co-op's mortgage is paid), the current reserve fund balance and interest earned on investments
- » architectural drawings, technical reports, energy audits, previous BCAs etc.
- » the yearly maintenance budget
- » recently completed capital expenditures, their cost and date of replacement
- » any issues of concern with building systems, water infiltration, asbestos, mold...
- » unit turnover rate

The more information given to the consultant, the more accurate the BCA and RFS will be. Make sure to tell the consultant about any planned capital projects and their costs, such as planned interior unit renovations when a unit turns over. Also advise the consultant of any energy-saving measures that the co-op would like to implement.

All the information should be prepared for the consultant before the scheduled site visit.

2. Draft BCA and RFS Received

The co-op should receive the draft BCA and RFS by the delivery date set out in the proposal. Typically, the draft report will be delivered by e-mail as a PDF.

3. Co-op reviews draft

Tips for reviewing the **BCA and RFS** are included as an appendix to this guide.

The co-op should review the draft in detail to ensure that

- » all the items listed actually form part of the co-op's buildings and property, and no item is missing
- » the narrative section of the report (including the recommendations) is consistent with the items, replacement cost and timing shown on the tables
- » the replacement schedule is reasonable in view of the components' current condition and their remaining useful life
- » an inflation rate has been applied to the projected expenditures
- » all amounts within the tables add up
- » the information from the co-op's reference documents is reflected in the draft.

As previously noted, sometimes the board of directors may want to meet with the consulting firm to discuss the draft. This meeting should be scheduled once the co-op has reviewed the report. If you are unsure about anything in the report, your Relationship Manager may be able to help.

4. Comments on draft given to consulting firm

Comments arising from the review of the draft should be organized in a way that is easy to understand and sent to the consulting firm. After receiving the comments, the consulting firm will make the necessary changes. Typically, this will take a week or so to complete, depending on the number of changes required. The co-op should follow up periodically to make sure the final report is delivered by the date in the proposal.

5. Final BCA and RFS received

When the co-op has received the final report, be sure to verify that all requested changes were made. The board of directors should approve the final report only after confirming that everything was done.

The consultant will provide your co-op with two hard copies of the final report and a PDF version.

Using Your BCA and RFS

When preparing a yearly capital budget, your co-op should consult the BCA to decide what items to include. The BCA is also the main reference document used in preparing a Capital Plan.

When preparing the annual operating budget, your co-op should make at least the reserve fund contribution recommended in the RFS.

Consider recommendations from the consultant when making decisions about the repair and replacement of building components.

The BCA may recommend further investigation and reporting for certain items or systems, because of limited visual access, such as with underground sewers. It's important to follow through on these further reports to get accurate information on the scope of work and estimated costs.

Updating Your Co-op's BCA / RFS

Since a BCA / RFS is a snapshot of the condition of your property and buildings at a specific time, it should be updated every three to five years. There are several reasons for this advice:

1. Building components may deteriorate much sooner than expected because of weather conditions, heavy wear and tear or problems with the original construction or with work done later.
2. Your co-op may have put off making routine repairs and replacements or used a construction company that cut corners, instead of working to the highest standard.
3. The older your BCA is, the less accurate it will be. For example, it will not include any major work done on your property since the last BCA was completed.
4. If your BCA is being used to support your request for a loan, the lender will want a report no more than three years old.



If your BCA / RFS report is five years' old or more, your co-op has the choice of going back to the same consultant to update your last report or getting a new BCA / RFS report from a different firm. Getting a new BCA / RFS report would mean starting right from the beginning with the process of getting this report.

What to Expect when Your BCA / RFS is Updated

A consultant's process for updating the previous BCA / RFS report typically includes the following:

1. A visit to the co-op's property to review the site and condition of the building(s)
2. A review of available reference materials (e.g., as-built drawings; earlier BCAs; list of capital work and repairs completed since the last BCA; current financial statements, etc.).
3. Based on the site review and the documents made available, the consultant will revise the previous BCA / RFS report by updating information on the condition of building components to reflect their current state. They will also note whether the property saw any major replacements or repairs in recent years. The consultant will update the cost and timing of suggested replacements and repairs, based on current condition. The updated RFS will include current cash-flow scenarios, as well as updated financial information and the current costs and timing of various capital expenditures.

Cost

The cost of updating an older BCA / RFS report depends on the consultant and the amount of work required.

Typically, for the co-op's reference, a BCA / RFS report will include a separate line item and allowance for a report update as part of the BCA's capital expenditure table. However, the allowance for the update may prove too low, depending on the rate of inflation and the number of years since the BCA was last updated.

An estimate of the cost of a BCA / RFS update needs to be confirmed directly with the consultant before the work begins.

Appendix A: Tips for Reviewing a Draft BCA and RFS

Read the full BCA and RFS report thoroughly, including all the tables.

Confirm that your co-op's information, such as the address, number of units, building type and year of construction, are correct in the executive summary and in the introduction of the BCA.

Ensure that the information you provided about the buildings and property (such as technical reports or architectural drawings) is referred to and is correct. This information is typically found within the methodology section of the BCA.

Review and confirm that all building and property components were assessed and are listed in the BCA.

- » Don't forget to check that the quantity of each element is correct.
- » If components such as hot-water heaters are leased or rented, ensure this is noted.

Verify that only capital repairs and replacements are included. Maintenance items that form part of your operating budget should not be listed. Components costing less \$2,000 would typically be considered maintenance items.

Review the condition and priority rating of each capital component.

Review the replacement costs to ensure they seem reasonable.

Review the timing for the replacement of components to ensure that their estimated remaining useful life seems reasonable.

Ensure that all the components listed on the expenditure spreadsheet are actually part of your coop's property.

Verify the accuracy of the reserve fund balance and the yearly contribution amounts in both the narrative and tables of the RFS.

If the status-quo scenario in the RFS shows that your co-op cannot cover all the projected expenditures in a given year, ask the consultant to consider deferring some expenditures or replacing items over a longer period.

Confirm that the estimated interest rate on savings matches that earned by your co-op's investments.

Appendix B: Glossary of Terms

BCA and RFS Information Request Form: A form to be completed by the co-op that will provide the consultant with basic information before the site visit

This document seeks answers to various questions about previous or future repairs/replacements, financial background, etc.

Building Condition Assessment (BCA): A technical report that assesses building and site components and determines their replacement cost and when they will need to be replaced

Capital Replacement Reserve Fund (Reserve Fund): The fund that finances the replacement of major building components when they reach the end of their useful life

Cash flow scenario: A funding scenario within the Reserve Fund Study that estimates the annual reserve contribution required to maintain a positive balance in the fund

Condition Rating Scale: A system to describe the condition of a building or site component. These scales typically use words such as “poor / good / fair / excellent”

Contingency Allowance: An allowance provided to cover a cost that cannot be accurately measured, such as for foundation leaks

Operating or Maintenance Cost: Expenditures that are considered to be small in capital value, typically under \$2,000

Priority Rating Scale: A system to describe how urgently a component needs to be repaired or replaced

An example of a priority rating is “satisfactory / maintenance required / immediate repair or replacement required / Health and Safety issue / structural issue”

Projected Expenditures: The cost of repairing or replacing property elements at a scheduled future time

Proposal: The consultant’s proposal document outlining their services, scope of work and fee for completing the BCA, RFS and any additional work

Remaining Useful Life (RUL): The approximate number of years that a property component will remain functional

Reserve Fund Contribution: The yearly amount contributed to the replacement reserve fund

Reserve Fund Study (RFS): A study that lists building and property components, predicts their probable date for replacement and proposes reasonable repair or replacement costs for budget purposes