



FEATURES THIS MONTH

1. Council E-Mail: What is The Protocol?
2. Strata Insurance Update
3. Loans From The CRF

NEED GOOD SITES FOR STRATA CORPORATION INFORMATION?

Here are some sites you can access:

Strata U. - Continuing Education Department web site links of interest:

- Canadian Condominium Institute: <http://www.cci.ca>
- Condominium Home Owners Association: <http://www.choa.bc.ca/index.html>
- Clark, Wilson, Barristers & Solicitors: <http://www.cwilson.com/stratafaq>
- *Strata Property Act* information web site: http://www.qp.gov.bc.ca/statreg/stat/S/98043_01.htm
- Vancouver Condominium Services: <http://www.vancondo.com>



1. Council E-Mail: What Is The Protocol?

It is standard procedure at VCS for supervisors to be copied on emails, events and other details which are occurring at the buildings which they oversee, so there are literally volumes (we file well) of emails we see that are, in a word and for a variety of reasons, shocking. In these instances, we take the opportunity to address our concerns directly with the strata council. This goes over well most of the time as the majority of council members are happy someone else has stepped in and said something. The other times... not so much. We do stress that no offense should be taken as bringing the concern to light should be constructive and allow for more harmony on council and a better relationship with your fellow members and strata agent. It should also result in better use of email as a means of communication for urgent matters and decisions and a resultant departure from its abuse or misuse.

The volume of emails received by our agents can be extraordinarily high at times and, while it has lessened the number of phone calls, voice mails, faxes and letters, it certainly has not come close to replacing them. This workload is exacerbated when emails include council members editorializing on specific, personal opinions and expecting an equally long and considered reply or individual council members (not a direction from the majority) asking that information be reviewed, digested and responded to immediately. This simply does not allow the agent adequate time for review and response. It is preferred if council members circulate emails to discuss issues amongst themselves and then copy the agent on the final outcome so that clear direction (as agreed to by a majority of council members) can be understood clearly and actioned accordingly. Otherwise, new business and associated discussions can be added to the agenda for the next meeting and discussed by council at that time.

While this is essentially a business relationship and council members are volunteers, unfortunately a concern we have found ourselves addressing recently is the disrespect shown between some council members in email correspondence. This problem usually takes root during council meetings which have become volatile for whatever reason and this, in turn, results in poor productivity and wasted time as arguments ensue over all manner of topics. We remind those involved that each member of council was elected by the owners to oversee the running of the strata corporation; therefore, all members should share a common goal of managing the corporation in the best interests of all owners and conduct themselves in a mutually respectful

manner. Respect is a key component both at council meetings and in writing correspondence outside of regular council meetings. Your agent will be able to do a much more effective job if they do not have to deal with tempers, hidden agendas and personal conflict between council members.

In closing, we would like to remind you that all discussions and correspondence addressing any issue, decision or vote must include all members of council unless there is a clear, identified and understood conflict of interest. This can be a simple case of the council member being involved in a dispute with another owner where bylaws are concerned (and the council member is therefore excused from the council meeting during discussion and omitted from email discussions) or an issue slightly more involved as contemplated in Section 32 of the *Strata Property Act* as follows:

32 A council member who has a direct or indirect interest in a contract or transaction with the strata corporation must

- (a) disclose fully and promptly to the council the nature and extent of the interest,
- (b) abstain from voting on the contract or transaction, and
- (c) leave the council meeting
 - (i) while the contract or transaction is discussed, unless asked by council to be present to provide information, and
 - (ii) while the council votes on the contract or transaction.

Keeping one or two members “out of the loop” because of a personal conflict or a known difference of opinion should always be avoided. The strata council needs to be an open forum and all opinions and ideas should be freely discussed and voted on, so that the individuals voted onto council as representatives of the ownership have their voices heard.

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2. Strata Insurance Update

For most VCS clients, the annual insurance policies expire on December 31st. Even if your strata corporation's insurance policy has a different anniversary date, this bulletin is important and we ask you to read it carefully. The content is prepared by VCS with input from BFL Canada Insurance, the predominant broker of strata corporation policies.

At this time the 2009 premium rates appear to be stable - meaning that we do not expect them to rise significantly or even at all. We will not know for sure until late November/early December. We do advise councils who are preparing 2009 budgets to add at least 10% to their budget allocation for insurance just in case. Remember also that base values are skyrocketing.

VCS will not embark on a third-party, independent market analysis for competitive quotes for 2009. As we have a number of clients with policies that expire during the calendar year, we have a very good idea of what is out there. Almost invariably, BFL Canada has the best premiums for the broadest coverage required by strata corporations. Other brokers occasionally have better premiums although the extent of coverage is not always as broad and comprehensive as the BFL program. Nevertheless, if your strata council wishes VCS to "obtain three quotes" we would be pleased to do so. Please advise your strata agent if this is your wish.

Last year we followed this same protocol and a handful of clients decided to shop around. In most cases, the competitive quotes were not all that competitive and the extent of coverages offered were not as good as the BFL program. In one case, the broker selected by the council did not provide the paperwork to VCS until the very last day before expiry of the BFL policy and only because VCS made repeated pleas for evidence of coverage. Message? You need to be very careful when shopping around for that better deal.

While it is true that there is more insurance capacity around at present leading to a softening of general insurance rates, the costs of strata insurance is somewhat of an anomaly. This is directly attributable to the cost of claims in strata corporations. Both the number and the cost of strata corporation claims are ever increasing.

Insurers (underwriters) are finding that there is more human negligence than ever before with many large fire claims arising from improperly discarded cigarettes and unattended barbecues. Multiple floor water damages in high rise buildings caused by people hanging clothing on sprinkler heads is another problem to be added to the high incidence of water damage in addition to claims arising from burst water pipes and faulty plumbing connections. “Grow-op” drug labs which come loose are also huge causes of water damage. With condominium living becoming more popular in B.C. there are also simply many more strata corporations which also adds to the number of claims.

With the rising price of fuel and resources added to labour and material shortages, restoration costs of damaged buildings have increased dramatically over the past year.

Excluding the large fires (and the plane crash into one building) the average claims cost is a little under \$12,000 per claim. On average one out of every two strata corporations will have a significant insurance claim in any given year. These are very high statistics compared to other classes of insurance. There are a limited number of insurers that provide coverage and they are finding that these claims costs are impacting them substantially.

Looking ahead to 2009 brokers anticipate that the underwriters will be looking at rate and deductible increases and strata corporations with less favourable claims histories will be more affected than those without claims.

Higher earthquake deductibles may become available at premium discounts as the reinsurance cost is less and will be passed on to strata corporations.

Claims will always happen but every effort should be made to minimize the effect of human negligence as that is one aspect of the risk that can be managed. One way this can be done is by bringing to attention the hazards to unit owners and occupiers. Managing claims is the key to keeping insurance costs down in the future.

Here are some suggestions:

- Control use of barbecues
- Inform residents not to hang things from fire sprinkler heads
- Monitor for drug labs, “grow-ops”



- Where strata lots have in-unit water heaters, advise the owners to replace them at or before the five year point. (Invariably it seems they fail and burst in year six!)
- Remind residents to turn off the water supply to their laundry equipment and not go out while the washer is operating
- Replace those old dishwasher rubber hoses with steel-braided hoses

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3. Loans From The CRF

Many strata council members do not understand what it means to have a loan made from the Contingency Reserve Fund to the Operating Fund. Others do seem to understand the general idea but then ask “who authorized this expense?” The purpose of this article is to try to explain this matter. A few basic points, first, which are important to the overall understanding:

1. Loans from the CRF to the Operating Fund are authorized by the *Strata Property Act*, specifically in Regulation 6.3.
2. A loan is not an expense. The money must be repaid. It is only a loan.

The reason that cash loans are required is that, sometimes, the Operating Fund cash balance is insufficient to pay current invoices. There are several reasons that this occurs: large accounts receivable (cash) from owners; large invoices which are payable “right away” such as insurance premiums; unrecovered operating fund deficits from the previous year; and, unrecovered deficits from other funds which were loaned money. The following example may assist in the understanding:

Operating Fund

Balance - Cash On Hand In Bank		\$20,000
Invoices Due “Right Now”		
- Gas	\$ 1,000	
- Insurance	\$18,000	
- Management	\$ 1,500	
- Payroll	<u>\$ 2,000</u>	



replacement funds. What the statute should say is that the loan must be repaid “within 12 months”. That would make more sense since it avoids the technical problem but still clearly establishes the concept of a loan vs. an expenditure.

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