

## Condo Smarts January 25<sup>th</sup>-28<sup>th</sup>, 2017

### Budget Crisis

Dear Tony: I am the president of my townhouse strata in Surrey. The endless snowfall that we experienced over the Christmas season will result in our year end budget being in a deficit and our council is not sure how to handle this. We budgeted for a few days or normal snow, but this has resulted in a dramatic overrun. Does the council have the authority to allocate this to other parts of the budget or do we simply run a deficit? Jeannie P.

Dear Jeannie: The Strata Property Act has a simple requirement for operating budget deficits. The deficit must be eliminated during the next fiscal year. There are two types of budgets expenses that occur during the year. Those that your strata had planned, and the unexpected. Depending on your budget for the year, it may be possible to have an over run in one category but still end up with a balanced or surplus budget, but when adverse conditions or emergencies occur, all plans are vulnerable. The Act provides strata corporations with options to deal with emergency expense or deficits.

A strata corporation may have experienced an emergency, which could be the sudden failure of a boiler, a roof leak, or a safety crisis such as a sudden heavy snowfall. These crisis events occur as emergencies if there are reasonable grounds to believe that an immediate expenditure is necessary to ensure safety or prevent significant loss or damage, whether physical or otherwise. Adverse weather conditions do not permit a strata time to convene a special general meeting with the required notice for approval of the funds. The strata council are responsible to determine the expense is necessary, immediate and an emergency. As a result, the strata may spend the funds necessary from the contingency reserve fund for the emergency cost.

There are a few methods to resolve the deficit as part of the operating budget. Strata corporations often maintain a cash surplus in their operating account, and the deficit payment from the surplus may be approved as part of the approval of the annual budget for the next fiscal year or, you may insert a new line item in the next year's budget for "deficit elimination" which would be paid as part of the strata fees throughout the year. Your strata corporation may also propose a special levy to pay the deficit, or the amount paid from the contingency reserve fund, both of which require a 3/4 vote; however, if the vote fails the strata is left with a debt they cannot reconcile. If your strata has the choice, avoid using the contingency funds to pay for deficits. If they are legitimate emergencies they may be directly expensed to the contingency fund, but if they are just a result of poor financial planning, your strata will not only deplete its reserves but also fail to recognize they require better budget planning. The estimates from the hard hit strata corporations having to address snow removal for lanes and parking areas is indicating a 300-400% cost overrun in those line items, so I suspect many strata councils could be facing deficit budgets this year.

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