

Reserve Fund Budgeting: A Fan Coil Unit Retrofit



One of the most under addressed issues in aging condominiums is the fan coil unit (FCU). Residents often take an “out of sight, out of mind” approach because FCUs live behind the walls, forgotten until an issue arises.

BY MELISSA KOIS

Some of the most common issues that bring awareness to larger FCU problems include inconsistent temperatures, motor noises, mechanical failure, odours, excessive condensate causing leaks and in bad situations, flooding and the worst, mould. These issues can create substantial problems for a condominium because an FCU is connected to other aspects of the building, including the riser systems, boilers, chillers and make-up air units, all of which control the overall indoor air comfort and quality. Retrofitting FCUs in an entire condominium is a significant undertaking, costing anywhere between \$500,000 to more than \$2 million, depending on the size of the building.

FCUs are typically managed one of two ways. They can be owned by either the individual suite owner or the corporation. If owned by the suite owner, he or she is individually responsible for repairs and replacement, and the corporation is only responsible for common area units. But because of potential damage caused by flooding, the corporation often takes responsibility for maintenance.

“It’s a grey area and should be clearly defined,” says Adrian Abramovic, P.Eng. of Trinity Engineering & Consulting Inc. “In the majority of buildings, the corporation will cover bi-annual maintenance to ensure the inspections are being completed. Preventative maintenance is very important, on new and older FCUs; as one FCU’s neglect may have negative consequences for the entire building.”

Abramovic has experience working with corporations who took ownership of the in-suite FCUs and funded the complete retrofit.

Reserve Fund Budgeting

If the corporation owns the FCUs, it is responsible for maintenance, repairs and retrofitting the entire building. This ensures the FCUs are reliable, limits property damage and allows for budgeting end-of-life replacement. Based on engineering opinions, roughly 10 to 40 per cent of condo corporations in Ontario own their FCUs. In these buildings, boards need to account for retrofit project costs through their reserve funds, not operating budgets. Creating a fan coil retrofit line item in the HVAC category of the reserve fund can proactively account for a project. The general life expectancy of an FCU is 20 years.

“The reserve fund is for major replacement or overhaul of common elements,” says Andrew Potter, P. Eng., owner of IN Consulting. “We have seen some condos use reserve funds for general maintenance and repair, which should come out of the operating budget. This leads to a shortfall in reserve funds, which will require a significant increase in future contributions or even a special assessment when a major repair is required”.

In the event a condo board has not adequately allocated funds, it may have to consider doing the following: hire an external expert to perform a special assessment, replace the fan coil units in phases, raise

maintenance fees, raise contributions to the reserve budget fund or all the aforementioned.

Replacing in phases can be problematic as managers and contractors change over time, and consistency is important to a successful project. This can also lead to maintenance issues as different manufacturers use different components.

One of the main ways a board contributes to its reserve budget is through maintenance fees, but how much can you increase fees to compensate for a project of this magnitude? The Condominium Act of Ontario mandates all registered condominiums perform a reserve fund study every three years. If you are underfunded, consider the age of your building and the FCUs so you can begin

allocating funds, starting the next reserve fund study, to prevent the need of a special assessment or increased maintenance fees.

All buildings — aging or new construction — should perform regular reserve fund studies and include fan coil replacement as a line item under HVAC equipment. Doing this early will ensure boards are financially set up to perform the retrofit when the existing units reach the end of their life expectancy. Including specific line items within your reserve fund with proper funds allocated over years will prevent potential emergencies that could result in liabilities, lawsuits, insurance claims and damages. □

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