

# Gateway South Centre CCN 061 4475

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## Notice to all Gateway South Centre Owners

### Re: 2014 Fiscal Year Budget

With the close of the 2013 fiscal year approaching, the Board of Directors ("Board") for Gateway South Centre ("GSC") has completed the budget process for 2014 and would like to provide some details on the expected results for 2013, the condo fee increase in the 2014 budget and the special assessment levied for 2014.

### **2013 Budget**

The 2013 fiscal year is currently projected to end with an operating deficit of over \$200k, due to the following factors:

*Repairs and Maintenance* – For 2013, we are projected to overspend our budget for repairs and maintenance on the building's geo-thermal, heating and other mechanical systems by approximately \$80k. This over expenditure is due to higher than expected levels of work repairing and maintaining the numerous systems within the building. There was also an increase in preventative maintenance costs. Any requests for work are reviewed by the management company and work related to the geo-thermal system requires specific approval from the building's engineer, MechWave Engineering. This ensures that the Corporation's budget is being spent as efficiently as possible.

*Plumbing* – For 2013, we are projected to overspend our plumbing budget by approximately \$40k. This is due to the partial costs incurred to start the auguring and cleaning of the majority of pipes in the building. During the year, it was noted that a number of units were experiencing issues with their plumbing, with residents experiencing blocked or slow emptying drains. The solution was to implement a building wide cleaning of the major pipes which was quoted to cost approximately \$100k. However, this project was deferred as no funds were available for this project in the 2013 budget. This project will be completed in 2014 with funds from the special assessment levied.

*Utilities* – For 2013, we are projected to overspend our utilities budget, specifically natural gas, by over \$40k. The Board signed fixed price agreements for electricity and natural gas in 2012. The budget for utilities was set based on historical usage based on the fixed rates. However, the Board noted that the distribution charges for natural gas, which are not fixed under the fixed rate agreements, doubled compared to the prior year, resulting in the increased costs. Distribution charges cannot be fixed under fixed rate agreements.

*Legal and Engineering* – In 2012, we had used the majority of the funds set aside for legal and engineering fees related to the lawsuit. The 2013 budget only included legal and engineering fees related to the normal operations of the building. For 2013, we are projected to overspend our legal and engineering budget by approximately \$50k.

### **2014 Budget**

As a result of the projected operating deficit in 2013, the budget for 2014 is increasing by approximately 10%. The board reviewed all of the costs contributing to the over expenditures and determined that the majority of the costs relate to normal building operations, and the budget should be increased accordingly to reflect the higher costs. The increased budget for 2014 is due to the following factors:

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*Repairs and Maintenance and Plumbing* – The budget for repairs and maintenance and plumbing is increasing by approximately \$84k to reflect an expectation of higher costs in 2014, consistent with the expenditures in 2013.

*Utilities* – The budget for utilities (consisting of electricity, gas, water & sewer) is increasing by \$70k to reflect the increase in natural gas distribution charges as well as minor expected increases for water & sewer costs.

*Insurance* – The budget for insurance is increasing by approximately \$28k based on the Corporation's renewed policy in late 2013. The increase in insurance premiums is due to rates increasing significantly throughout the Calgary market.

*Reserve Fund Transfers* – Reserve fund transfers are increasing by approximately \$15k to reflect the contributions required by the new reserve report. The Corporation continues to build on GSC's strong reserve fund balance, projecting a balance well in excess of \$1 million even with some approved expenditures for capital items in 2014. The strong reserve fund balance continues to be a positive signal for purchases interested in GSC. A copy of the new Reserve Fund Study and Plan are available in PDF at [www.gatewaysouthcentre.com](http://www.gatewaysouthcentre.com).

*Other* – The remainder of the increase relates to small increases in administration fees (primarily due to the costs for holding two AGMs, as quorum is generally not achieved in the first meeting), communication equipment (equipment upgrades and technical support for the security cameras), gym (equipment upgrades and replacements), geo-thermal lease payments and the GST associated with all of the increases above.

### 2014 Special Assessment

In addition to the budget increase, the Board has approved a \$600,000 special assessment to fund a number of significant projects which will be completed in 2014, as well as to recover some of the over expenditures in 2013. The capital projects, including the pond repair and landscaping upgrades, will not be funded from the reserve fund as they relate to the remediation of construction deficiencies and upgrades, which are not included in the reserve study. Using the reserve fund would result in significant increases in the Corporation's annual reserve fund contributions, resulting in higher fees. The remaining items are operational in nature and cannot be funded from reserves. The special assessment will be allocated as follows:

<b>Project</b>	<b>Budget</b>
Pond Repair (including contingencies + GST)	\$150,000.00
Interior Courtyard / Macleod Trail Green Space Upgrades (including contingencies + GST)	\$100,000.00
Legal and Engineering Fee Reserves	\$150,000.00
Recovery of 2013 Over Expenditures	\$95,659.16
Plumbing Auguring (including contingencies + GST)	\$92,000.00
Assessment Administration Fee (including GST)	\$12,340.84
<b>Total</b>	<b>\$600,000.00</b>

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*Pond Repair* – The Board has reviewed the recently commissioned engineering report on the pond and four options to repair and remediate the issues were provided. The Board will solicit feedback from owners before determining which option should be selected. It was noted that the issues in the pond were due to deficiencies during construction including leaks in the waterproof membrane and that the repair and remediation of the pond should not be funded through the reserve fund. The Board noted that repairing the pond is not reflected in the reserve report and funding this project through the reserve fund would significantly increase reserve fund contributions in the short-term, significantly increasing fees. Copy of suggested options for feedback is included. This will be discussed at the Annual General Meeting which is tentatively scheduled for mid February 2014. Formal notices will be sent in January.

*Interior Courtyard / Macleod Trail Green Space Upgrades* – In 2013, the Board started to develop a long-term strategy to make improvements to the courtyard and Macleod Trail green space. This plan started off with restricting pets in the courtyard due to the damage they were causing. In 2014, the Board will review proposals for landscaping upgrades to the courtyard and Macleod Trail green space. These upgrades will improve the view for the units surrounding these areas, some amenities for the large lounge and the Board believes that this will result in increased unit values throughout the building.

*Legal and Engineering Fee Reserves* – As with the previous special assessment, the Board is setting aside funds for the expected legal and engineering fees related to the ongoing lawsuit. This reserve is expected to cover the costs for the upcoming discoveries.

*Recovery of 2013 Over Expenditures* – The Corporation was able to fund the over expenditures from the operating surplus from previous years. The Board has determined that a recovery of some of the over expenditures will continue to provide the Corporation with the flexibility needed in future years for potential over expenditures or unbudgeted projects.

*Plumbing Auguring* – This project was deferred in 2013 as there was no budget for the costs. As this is a one-time project, the Board determined that it would be funded through a special assessment. This project will begin immediately at the start of 2014. A copy of the quote is included for your review.

*Administration Fees* – Administration fees are set at 2% of the special assessment levied.

The special assessment will be due as follows:

- One half by March 31, 2014
- The remainder by September 30, 2014

The assessment will be allocated to each owner based on the same unit factors for condo fees at \$60.00 per unit factor. This special assessment will provide the Corporation with the funds necessary to start these projects.

### **Summary**

When the budget for 2013 was set, the small increase from 2012 did not provide the Board with much flexibility in terms of unbudgeted or unexpected costs. As a result, with the items discussed above, 2013 is projected to finish with a deficit. The Board reviewed the over expenditures and determined that an increase in the budget was needed to provide the Corporation with some financial flexibility and to address the higher costs that are expected to continue. The Board also reviewed the fees for comparable

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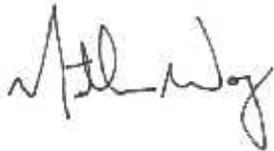
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condominium buildings and noted that after adjusting for in-suite electricity and geo-thermal lease payments (which are not typically included in other buildings); the fees for GSC remain comparable and competitive. As a result, the Board approved the increase.

In addition to the increase, there were a number of high priority projects that the Board wanted to start and/or complete in 2014. The Board believes that these projects are positive investments in the building and will, at a minimum, protect the value of each unit for all owners. Also, as the previous reserve for legal and engineering costs was fully utilized in 2012, the Board approved the collection of a new reserve for expected future costs.

**The Board would like to remind owners to continue to be mindful of their consumption of utilities as well as continuing their best practices in watching what they put down the drains. The actions of everyone that live in GSC directly impact our fees. The Board would also like to thank all the owners who contribute to the maintenance of the building by reporting any potential issues that need to be addressed. Your efforts help make GSC a wonderful place to live.**

The Board will be available to answer any questions related to the 2014 budget and the special assessment at the Annual General Meeting to be held in early 2014. In addition, the Board Treasurer will be available for an evening in early January to answer any questions from owners on the 2013 fiscal year, the 2014 budget and the 2014 special assessment. Confirmation of the time and location will be provided once it is available. Notice will be posted on the South Centre website, as well as in the elevators with those times, when available.



Nathan Wong, CA – Treasurer  
Gateway South Centre