

Resort Villa Management Ltd.
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BUDGET COMMENTARY

Final budget: (based on a full resort renovation. Actual budget will reduce based on Freedom to Choose uptake)

	Description	Low Range	High Range	Contract Budget
1	Civil Works	2,250,000	3,500,000	3,424,120
2	Structural	4,500,000	6,000,000	6,174,433
3	Mechanical	2,000,000	3,000,000	2,905,077
4	Interior upgrades	11,000,000	15,000,000	14,725,803
5	Furniture, fixtures and equipment	2,750,000	3,500,000	3,500,000
6	Soft costs	4,000,000	5,000,000	4,938,157
7	Contractor contingency	1,500,000	2,000,000	2,316,483
	Balance before additional items and PST	28,000,000	38,000,000	37,984,073
8	Recreation building	-	-	1,000,000
9	Provincial sales tax (PST)	-	-	1,860,269
		28,000,000	38,000,000	40,844,342

Commentary

1. Civil Works include storm water management on the site from the buildings, physical infrastructure (water lines, topographical and geotechnical control features), asphalt and curb/gutter components.

Staff recognized inadequacies in the design based on annual flooding, roof drainage from the buildings that flows into the parking lots and green areas, areas of erosion in the Hillside area of the property and the deterioration of parking and roadways. Based on these deficiencies, the budget range was established.

RVM retained the civil engineering firm, MMM Group Ltd., to review the civil infrastructure at the resort. The scope included adequacy of design (including required upgrades) and deferred maintenance. Numerous deficiencies in design were found including a lack of building perimeter storm water connections, inadequate capacity of main storm lines, an insufficient number of catch basins, failing curb and gutter throughout the resort and significant compromised asphalt which collectively exceeded expectations. A budget for rectification was prepared by the engineers in conjunction with a required scope for repair.

2. Structural components are comprised of the exterior envelope (the physical separator between the interior and exterior of a building) of each building, decks, support components and roofs. These features include both load-bearing capacity and water penetration.

Water penetration is a leading cause of structural failure and continued envelope deterioration (freeze-thaw cycles) as well as a long-term health risk (mold). Because Sunchaser staff has conducted repairs

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to localized areas of the Riverside buildings, initial budget estimates were expected to have a high degree of accuracy.

RVM retained Aqua-Coast Engineering Ltd. to review all building envelope related issues and the scope of repair exceeded internal estimates by a significant margin. The increased scope primarily relates to the Hillside buildings as they are more exposed than Riverside and are more complex in design and construction. In conjunction with this review, structural issues were discovered which further moved budgeted costs.

3. Mechanical upgrades primarily relate to the installation of polybutylene plumbing for domestic water service in 14 of the 17 buildings on site. It was originally anticipated that abandonment of the existing plumbing lines and installation of new ones would be relatively simple.

During the planning and site review process with the General Contractor, VVI Construction Ltd., it became apparent replacement with new PEX plumbing lines would be far more labour intensive than anticipated. In addition, it was discovered that a number of the buildings had boilers installed contrary to prevailing code and require movement or replacement. Both issues resulted in the final budget coming in at the high end of the expected range.

4. Interior upgrades consist of significant wall and ceiling drywall replacement after installation of the new PEX plumbing, along with new flooring, cabinetry, countertops, tiling, millwork and framing to bring the resort back up to an appropriate standard for our members. Because each suite must effectively be “gutted” to deal with the plumbing replacement, it was determined that physical obsolescence of the interiors should be addressed to permit larger living areas in the Riverside B units, increased storage and modern entertainment components.

Upon initial estimation, it was anticipated there would be substantial economies of scale give the size of work. While some economies of scale were achieved in cabinetry and plumbing fixtures, the substantial labour component of the work and costs for the needed unit update limited overall savings.

5. Furniture, Fixtures and Equipment (“FF&E”) relates, as one would expect, to the beds, televisions, appliances and fixtures in each unit. FF&E is considered a critical budget item because it is the primary “facelift” component that our timeshare members will experience providing value for their renovation fee. Completing all of the “behind the wall” work such as the plumbing without ensuring the room experience was brought current would not have been acceptable.

FF&E budgeting has been included at the high end of the original estimation to reflect the length of the construction period. Given its importance, we wanted to ensure the budget adequately addressed potential cost increases over the renovation period.

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6. Soft costs are mostly variable labour costs of the general contractor and other trades. As such, they increase as the other budget costs increase.
7. Contractor Contingency is a “buffer” against unexpected changes during the project period. Given the scope of the renovation, particularly the substantial “behind the wall” work and its length (36 – 42 months), contingencies for the unknown and price increases on materials have been incorporated into the final budget.

The final contingency exceeded initial projections in order to satisfy the general contractors concerns in agreeing to a maximum price contract. We made it clear that going back to our timeshare members for additional funds would not be acceptable and the middle ground was an increased contingency. In the event any contingency funds are not used by project end, they will be placed in the reserve fund of the resort to benefit our timeshare members in the future.

8. The recreation building is the central building at Riverside which houses the resort administration, indoor pool, indoor and outdoor hot tubs and other amenities for our guests. Structural upgrades to the recreation building were not considered in the original budgeting for of the renovation program.

The recreation building has foundation problems which affect the swimming pools and sun deck. This is an allowance for that repair.

9. PST (Provincial Sales Tax) reflects the costs that will be charged to the property manager by the general contractor on eligible expenses (primarily materials). As there is no input tax credit for PST like with GST (meaning we cannot recover it from the government), the PST forms part of the costs that get billed as renovation costs to our timeshare members (it is not directly charged). As PST is not charged on labour, which represents approximately 30% of the budget, the effect of the PST is a 4.8% increase in the renovation cost instead of the base 7%.