



Reserve Account Law – What’s Changed?



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Effective January 1st, 2012 Condominiums will have expanded reporting standards required within Washington Reserve Study/account law. Homeowners Associations with “significant assets” will be required to perform and disclose Reserve Studies in a similar manner as condominium associations.



Full text of House Bill 1309 can be found here: <http://apps.leg.wa.gov/billinfo/> by entering 1309 into the search box. The bill passed 98 – 1 in the House, 48 – 1 in the Senate and was signed into law by Governor Gregoire on April 29th, 2011.

New reporting & disclosure standards (paraphrased – to be codified within RCW 64.34.308).

- In addition to disclosing within resale certificates and Public Offering Statements, specific information from the Reserve Study must be provided to all owners as part of the summary of the annual budget
- Current budgeted reserve contribution rate, recommended contribution rate from the Reserve Study and the funding plan upon which it is based. Any additional regular or special assessments scheduled to be imposed, date they are due and the purpose of the assessment
- Based on the most recent Reserve Study and other information, whether currently projected reserve account balances will be sufficient at the end of each year to meet the

association's projected obligation for major maintenance, repair or replacement of reserve components during the next thirty years

- If reserve account balances are not projected to be sufficient, what additional assessments may be necessary to ensure sufficient funds
- The estimated amount recommended in the reserve account(s) at the end of the current fiscal year based on the most recent Reserve Study, the projected actual account cash balance at the end of the current fiscal year and the Percent Funded at the date of the last Reserve Study. • The estimated amount recommended in the reserve account based upon the most recent Reserve Study at the end of the next five budget years, the projected account cash balance in each of those years; and if the funding plan approved by the association is implemented, the projected reserve account(s) cash balance in each of the next five budget years and the percent funded for each of those years. ***Note: This will require additional calculations from the Reserve Study provider or other if the association chooses a reserve contribution rate different than recommended within the study. All of the other requirements above can already be found in a Reserve Study prepared in accordance with CAI's National Reserve Study Standards. ******

Reserve Study Must Include (paraphrased – to be codified within RCW 64.34.380)

- A reserve component list, including: roofing, painting, paving, decks, siding, plumbing, windows, and any other reserve component that would cost more than one percent of the annual budget for major maintenance, repair or replacement. ***If any of these components is not included in the Reserve Study, the study should provide commentary explaining the basis for its exclusion.***
- A recommended reserve account contribution rate, a contribution rate for a Full Funding plan to achieve **one hundred percent** Fully Funded reserves by the end of the thirty-year study period, a Baseline Funding plan to maintain the **reserve balance above zero** throughout the thirty year study period without special assessments.

New Definitions (paraphrased – to be codified within RCW 64.34.020)

- Baseline Funding plan means establishing a reserve funding goal of maintaining a reserve account **balance above zero dollars** throughout the thirty-year study period.
- Full Funding plan means setting a reserve funding goal of achieving **one hundred percent** Fully Funded reserves **by the end** of the thirty-year study period.
- Significant Assets within Condominium Associations means that the current total cost of major maintenance repair and replacement of the reserve components is **fifty percent** or more of the gross budget of the association, excluding the budgeted reserve contribution. The criteria for significant assets within Homeowners Associations is the current total cost of major maintenance, repair and replacement of the reserve components is **seventy-five percent** or more of the gross budget, excluding the budgeted reserve contribution.

Borrowing from Reserves (paraphrased – to be codified within RCW 64.34.384)

- An association may withdraw funds from its reserve account to pay for unforeseen or unbudgeted costs that are unrelated to maintenance, repair or replacement of the reserve components. See RCW 64.34.384 for specific notification requirements.
- Payment for major maintenance, repair or replacement of the Reserve Components out of cycle with the Reserve Study projections or not included in the Reserve Study may be made from the reserve account without meeting the notification or repayment requirements under this section.

Homeowners Associations

The requirement to perform and disclose Reserve Studies for Homeowners Associations with significant assets is very similar to the requirements of condominiums with some notable exceptions as listed below. The full text can be found using the link at the beginning of this article.

Key differences between HOA and Condominium requirements (paraphrased – to be codified within RCW 64.38)

- Significant assets means that the current replacement value of the major reserve components is **seventy-five percent** or more of the gross budget of the association, excluding the budgeted reserve contribution.
- Reserve component means a common element whose cost of maintenance, repair or replacement is infrequent, significant, and impractical to include in an annual budget. ***HOA law will not specifically require roofing, painting, paving, decks, siding, plumbing, windows to be included as these components are not found in many HOA's.***
- An association is not required to follow the Reserve Study requirements if the cost of the Reserve Study exceeds **five percent** (10% for Condos) of the association's annual budget, the association does not have significant assets, or there are ten or fewer homes in the association.

How these changes are likely to affect owners and industry professionals

First, don't panic; the other associations in your market area have the same requirements. The law goes into effect in 2012, allowing time to understand and implement the resulting changes. Reserve disclosure requirements level the playing field and ultimately reward associations for their financial stewardship, not necessarily for having the lowest assessments around. Ultimately the community will benefit in many ways from having a solid financial plan and buyers being able to make informed decisions, choosing a property that is within their financial means.

The new requirement of Reserve Study information to be disclosed, along with the summary of the budget, dictates that more information will be needed by your governing document's

budget delivery deadlines. Studies therefore should be performed well in advance, earlier in the year than many have typically performed in the past. Most studies take 6 to 8 weeks to complete and this new deadline is likely to increase this time frame during seasonal demand for Reserve Study providers.

Reserve Study providers should work closely with the association to discuss their recommendations and options in light of the requirement for associations to show reserve cash flow projections for the next five budget years, if a reserve contribution rate other than recommended in their study has been chosen.

Association Reserves is in position to help associations through this transition period and provide effective budget and disclosure information as the association's planning partner, providing solid, reliable guidance based upon CAI's National Reserve Study Standards, adopted in 1998.***

While there remains no funding mandate within the law, requirements for the association to maintain "adequate" or "sufficient" reserves can be found within many Declarations. The keys to success remain communication, disclosure and strong leadership.

*** <http://www.reservestudy.com/pdf/NRSS.pdf>